103

FEDERAL ASSISTANCE FOR SINGLE FAMILY HOMEOWNERSHIP

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Federal Assistance for Single Famil...

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

NOVEMBER 18, 1993

Printed for the use of the Committee on Banking, Finance and Urban Affairs

Serial No. 103–101

DEPOSITORY

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FEDERAL ASSISTANCE FOR SINGLE FAMILY HOMEOWNERSHIP

THURSDAY, NOVEMBER 18, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Klein, Roybal-Allard, Barrett of Wisconsin, Furse, and Roukema.

Chairman GONZALEZ. The subcommittee will please come to order.

Let me thank the witnesses ahead of time for their continued, sustained support such as Mr. Loza and a couple of the others who have helped.

Today the subcommittee will address the need to provide Federal assistance for the purpose of increasing single family homeownership by reauthorizing and funding the National Homeownership Trust. The trust is desperately needed in order to enable first-time homebuyers to achieve homeownership.

The country has experienced an increase in homeownership every decade since the end of World War II. However, from 1980 to 1990, homeownership has declined by 0.24 percent. The decade of the 1980's was indeed abysmal for homeownership. In 48 States, homeownership fell among households headed by people of 25 to 34 years of age from 1980 to 1990. Homeownership among those aged 34 to 39 fell from 61 percent in 1980 to 50 percent in 1990.

The statistics, of course, don't reveal the full dimensions of the social tragedy reflected there. They do, however, confirm my worst fears that the last 12 years of little or no investment in housing have resulted in less affordable housing. In fact, my concerns arose before the 1980 decade, when everything was riding high and everybody was enjoying what seemed to be an unending merry-go-round. However, the forces were in place that ultimately would lead to the dilemmas we now face.

I believe this clearly indicates to the Congress and the administration that it must confront the problem of decreasing homeownership and consider drastically increasing the amount of funds allotted for housing and community development programs.

One such program that deserves funding is the National Homeownership Trust, which I devised when it became obvious that the

structure and the financial framework for the structure that had given birth to such things as FHA, the S&Ls during the Depression era, was inevitably and forcefully crumbling in the postwar period. In an attempt to offer a substitute that is patterned on some of the national commitments to housing in other countries, I roughly sketched out in the late 1970's what I later called the National Homeownership Trust.

It was in the 1990 National Affordable Housing Act that it was enacted. The main prerogative is to assist low-income or average income first-time homebuyers. The trust provides low-income homebuyers with assistance payments to buy down the interest rate, and we cap it at 6 percent. In other words, the lack of stability in that market is at the root of the problems.

While the trust is in Public Law and has been consistently reauthorized since its inception in 1990, the program has not been funded, and the regulations were never issued by the previous administration. I also included the trust in H.R. 67, the Emergency Community Development Act of 1993, which was intended to spur economic growth and provide housing assistance, which this subcommittee and full committee actually approved on a bipartisan basis, believe it or not. I still say it was enacted because of the result of studies and evaluations going back to the Depression era, a structured approach to the problem.

The cycle of recessions has led us to what today is a prolonged recession that we haven't gotten out of since 1990–91, notwithstanding all of the spouting to the contrary. Until we begin at this point, the economy will not change, and that is the lesson we learned since the Depression.

We included the Trust in the Emergency Community Development Act of 1993. Even though the subcommittee and full committee passed the Economic Development Act out on a bipartisan basis, unfortunately our leadership in the House decided that in an election year this wasn't the approach. Despite the bipartisanship, the leadership told me they couldn't consider this approach because it meant a spending program, and the Democrats would be accused of being the spenders. The thing to do was to confront the President at his level.

So we entered into these periods of misadventure in which, unbelievably, we were going to go into prosperity through taxation. Of course, we know what has happened.

I must say, in all candor, that the Congress and its leadership, especially in the House, did not rise to the occasion, and hasn't up to now. And the President, of course, has backed off ever since his defeat earlier this year in a very modest proposal, a watered down version of H.R. 7, that was defeated in the Senate, which rightly or wrongly was labeled the stimulus program.

Our trust's first authorization was for $500 million. We recognized that the amount was limited but we had a pretty good estimate as to what could be done even with that modest amount. We had that included in the Stimulus bill based on the promise that as more loans were purchased, more homes would be built and, of course, more jobs created. I certainly intend to continue my effort to show the need for economic stimulus within the next year's

Housing Reauthorization bill, which will be introduced if we adjourn next week, early next year, God willing.

I certainly welcome all of the witnesses who have kindly accepted the invitation to testify before the subcommittee on this issue. I look forward to the testimony. I want to thank those of you that have submitted your testimony in time for us to have read it.

I recognize our very distinguished ranking minority leader of the Subcommittee on Housing and Community Development, who has been a stalwart all along, Mrs. Roukema.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

Mrs. ROUKEMA. Thank you, Mr. Chairman. It is a pleasure to be here today. I, for one, am glad to change the subject from NAFTA to housing. I think we have all had enough of the NAFTA for now, and we will leave the evaluation of the consequences of last night's vote—I was needless to say very happy with the vote—but we will leave the evaluation and analysis of the consequences to your side of the aisle. I am just glad that it passed.

I would like to say, Mr. Chairman, that I appreciate the review that you have given on housing actions that you and I have worked largely in concert on over the past several years. I will include the full statement of my remarks for the record, if I can have unanimous consent.

And I was somewhat amused by your analysis of what happened in your own party about whether or not your trust fund, which, by the way, I support, but I look at whether or not the trust fund deserved to be funded, and the question of what represents big spending and what represents good tax policy. I am not going to enter into that chicken or egg discussion, but let me say that I do favor the proper use of tax incentives. I take some exception with some of my colleagues on my side of the aisle, but I kind of like using the Tax Code as incentives. But we won't go into that now.

I do appreciate this hearing today, but I want to take only a couple of exceptions, and say that I noted that in a recent speech on homeownership to the American Realtors Association, Secretary Cisneros, with whom I have a warm working relationship, outlined his comprehensive homeownership strategy formula, but I have got to say I take a little exception to some of the statements that were made there. I was disappointed when he set up his priorities, the first one of which is, as I understand it, he emphasized an expansion of the FHA Program through increases in the loan limits and programs such as no downpayments.

I believe that the Secretary should be reminded that the FHA MMI Fund is still insolvent, and that FHA is in violation of the standards, as I understand it, as we put them down in the law, and has failed to reach the capital levels that we set.

Despite its good work, it makes little sense, in my opinion, to further expose the FHA to additional liabilities until it meets those capital standards. We require this of our banks, and I believe the FHA should be no exception.

Second, the Secretary did fail to include the HOME Program in his strategy. This strategy was the centerpiece of the 1990 Housing Act and I believe must be part of any future housing strategy. And

I think there is good membership support for that as being a top priority.

Finally, the Secretary failed to commit himself to protecting the mortgage interest deduction, and here we get into something a little more controversial, but one to which I am devoted, because I believe it is the cornerstone of national housing policy for most of this century, and while there are some purists, as you know, who want to eliminate it, I believe it is a proper incentive.

It is clear that this one tax provision has been responsible, in my opinion, for the transformation of this Nation from underhoused to the best-housed nation in the world. Certainly, that is one of our joint goals here. And I look forward to working with both you and the Secretary to renew our concerns here, to put added incentives. And in the case of the housing trust fund, I would hope that although we have more will than wallet on it, perhaps, that we are able to reorder some priorities and give that higher priority for all our American citizens, and those that desperately need this kind of assistance.

[The prepared statement of Mrs. Roukema can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mrs. Roukema.

I am not too familiar with the Secretary's presentation to which you have referred. We have been the first ones to express concern about the FHA Mutual Insurance Fund, because that is the one that has a direct impact on the Treasury.

Mrs. ROUKEMA. Exactly.

Chairman GONZALEZ. We have been concerned with its actuarial conditions. Of course, again, I must point out that policies and programs that were instituted in the prewar period we continue to fight for, especially in the case of the financial instrumentalities, S&Ls connected with housing and ownership, as well as banking instrumentalities. Of course, now we have a very turbulent financial world. As a matter of fact, I have this clipping that just appeared in the *Wall Street Journal* this morning entitled, "Kitchen Sink Bonds May Offer Everything But Stability." The basic goal that we have for the trust fund is that it provides the stability necessary.

Of course, it is also predicated that we would have finished the era of unrestrained greed on the part of everybody, from homebuilders to mortgage bankers to everybody else. I will give you an example.

After the war, my area, doubled in size, in population from 1940 to 1945, because it was a war impact area. Unfortunately, there was no construction during that period. Most of you are too young to remember that, but I do. I lived through it. In fact, I go back to the Depression period.

The first aspects of what today we call homeless, which aroused our attention in 1982, I had not seen since the 1930's. Then, in the autumn of 1982, we saw it again. This subcommittee was the first to initiate any kind of a national level attention to what now is called homelessness, yet the issue has sunken to the back pages of our media.

But today's article reveals that all of this is predicated on the so-called securitization, and based on the collateralized mortgage obli-

gations, or CMOs, of which there are now more than 800 billion dollars' worth. It is a tremendous bubble, and all bubbles burst. I have tried to say this since the middle 1970's, and the Real Estate Investment Trust [REIT].

I am going to ask that this article appear in the record here after the witnesses' testimony. If there is no objection, I would like to do that, because it clearly brings out the desperate attempt to maintain a period that is no longer around, a period in which you could maximize, to the point of greed, profits and everything else.

In my area, as I said, immediately following the war in 1945, some of the first homebuilders that came around after the war, were returning veterans. The reason I am familiar with this, is that there were restrictive covenants that existed in an area north of a street in San Antonio called Hildebrand, that was not available to people of Mexican or Negro descent. There was one young couple, Enterprise Home Builders, who built an area called Alena Village in what otherwise had been sort of a mesquite brush. Today it is almost in the center of the great metropolitan area.

Anyways, they built a total of 400 homes. They felt that they got a maximum profit of 10 percent. We have reached a period where homebuilders will not settle for less than 20 to 25 percent, in some cases 30 percent. So what construction you did get in your single family residential construction was nominal. In the teeming and dense metropolitan areas, single family construction is not the big issue, because there it is a need for rental. But in most States, including mine, it is still single family homeownership which is the ideal and the goal of young and stable families.

So, we should not have been surprised with the increment of expected profitability from homebuilder to the mortgage banker to the S&Ls. With deregulation in 1982, the S&Ls went wild, land flips, which I reported but nobody paid any attention.

There is no such thing in human existence as not having a day of reckoning if you do certain things. So this article is very disturbing, because it shows that what I have said since 1982 or 1983, when we had areas in the country where the foreclosure levels had exceeded the Depression period, needed to be addressed. Although there is a tremendous difference in comparison between the Depression and today. I don't know how you can extrapolate a comparison, but we felt it called for some attention. As a result, we introduced the Home Mortgage Emergency Assistance Act in order to cover both FHA as well as conventional mortgages.

The 1979 act, in which I had a hand, provided some help by creating a mortgage assignment program and the like, but that was limited to FHA mortgages. So my bill in 1983, we got out of the subcommittee and full committee, unfortunately on a strict partisan basis, and out of the House. It went to the Senate where it languished and died. We must recall that during that period the Senate committee or the equivalent didn't have 5 minutes' worth of hearings on housing.

So today I feel it is very important. I consider this meeting perhaps one of the most important that we will have, and I wanted to repeat my thanks.

The witnesses are Mr. Richard K. Green, assistant professor of the Graduate School of Business at the University of Wisconsin at Madison.

Ms. Marian I. Siegel, the deputy director, Housing Counseling Services here in DC, who is accompanied by Ms. S. Theresa Hill, who is a counseling program administrator.

Mr. Moises Loza, executive director of the Housing Assistance Council, Washington, DC, a big help to this subcommittee and a long-time friend.

Mr. James R. Irvine—I hope I pronounced that correctly.

Mr. IRVINE. Close enough, Mr. Chairman.

Chairman GONZALEZ. Homebuilder, Portland, Oregon, on behalf of the National Association of Home Builders, Washington, DC.

And Mr. Richard R. Harps, past chairman of the Housing and Community Development Committee of the National Association of Realtors, Washington, DC.

If none of the witnesses has any objection or any time constraints, I will recognize you in the order in which I mentioned your names.

Mr. Klein, do you have any statement?

Mr. KLEIN. Well, just briefly, Mr. Chairman, I certainly do want to hear the witnesses. I want to thank you, Mr. Chairman, for your leadership in scheduling this hearing on Federal assistance for single family homeownership.

I strongly support your belief that the housing industry is a key to the recovery of the economy, not only nationally but certainly in my own State of New Jersey, and that there is a strong need for single family homeownership.

I might say, Mr. Chairman, that I don't know whether your references to the teeming metropolises included New Jersey, but we in north Jersey, and my neighbor, Mrs. Roukema, happen to have a twofold problem with regard to affordable housing. First, we have those who are in low- or moderate-income categories, and we are doing a great deal to try to help them achieve the American dream of homeownership in the cities. And that is a very, very important goal for us.

But an equally important goal for me and for, I am sure, constituents of Mrs. Roukema, is that of first-time homebuyers, because single family homeownership, while a cherished dream, is also extremely expensive in our area, and for the young people who come from our area, and they look at the price of a new home, and they say it is just outside their grasp, they can't achieve it.

So it is extremely important, I think, for us to establish a strategy that takes care of both of those people in terms of achieving the American dream of homeownership, and certainly this is one of my most important goals in being on this subcommittee, and I look forward to the testimony of the witnesses on this subject.

Chairman GONZALEZ. Thank you very much, Mr. Klein.

There must be something in New Jersey, because your colleague, Mrs. Roukema, and a previous ranking member from New Jersey, also took great interest in housing. So I appreciate your remarks and I agree with them. I welcome your support.

Ms. Furse, do you have any statement?

Ms. FURSE. Well, Mr. Chairman, I am really excited about this hearing because it is really what we are here for.

I do want to thank you for inviting Mr. Jim Irvine to testify. Mr. Irvine is not only an expert in housing matters, he is also from my district. It is a great pleasure to have him here. He is a president of the Conifer Group in Portland. He has worked tremendously with the issues of single family housing and light commercial development. He has been twice Builder of the Year of the Oregon State Home Builders Association. He is on the board of Habitat for Humanity and the Seattle Federal Loan Board.

One of the things I want to say, Mr. Chairman, is I always am pointing out that Oregon is ahead of any other State on any kind of national problem, but Mr. Irvine has done something and worked with Linn and Benton Counties in Oregon to develop a really innovative program. It is a public-private partnership in those two counties, and they have helped provide $5,000 downpayments for 28 families.

Now, not only has that put 28 families in housing, it has freed up section 8 housing. So this is a real example, Mr. Chairman, of this kind of public-private communication and working together to solve this problem.

I am so pleased Mr. Irvine is here. He will, I know, present us with very good testimony. I thank you for inviting him. I look forward to the testimony of all the witnesses.

Chairman GONZALEZ. Thank you very much.

I had anticipated asking you if you were here to introduce him, but you have already done so.

Ms. FURSE. I have done it now.

Chairman GONZALEZ. I really appreciate that. Thank you very much.

If there is no objection, we will recognize Mr. Richard K. Green first.

STATEMENT OF RICHARD K. GREEN, ASSISTANT PROFESSOR, GRADUATE SCHOOL OF BUSINESS, UNIVERSITY OF WISCONSIN-MADISON

Mr. GREEN. Thank you, Mr. Chairman. It is a pleasure for me to be here this morning.

What I would like to talk about is some work that I have done, as well as other scholars have done, on the issues of housing affordability, trends in tenure choice, and the social benefits of home owning. I will be referring to some work I have done with my colleague, Steve Malpezzi, at the University of Wisconsin, and Michelle White at the University of Michigan. My opinions today are my own and don't necessarily reflect those of my colleagues or my institution.

I would like to begin by talking a little bit about affordability, just to take stock of where we are. It almost seems we have contradictory information on affordability right now. On the one hand, as you so eloquently put it, there is an affordability crisis. You have a number of advocates saying this, as well as scholars such as William Apgar of Harvard.

If you look at the National Association of Realtors housing affordability index, it is at its best level in roughly 20 years. A me-

dian income family of four can afford 33.1 percent more than the median price of a house.

In light of this contradiction, I tried to get at the issue of affordability from a different perspective. First of all, I think we are looking at home buying affordability, it doesn't make a lot of sense to focus on everybody's income. After all, homeowners have already passed the homeownership barrier, so it is renters' income that is the relevant determinant of affording homeownership.

Second, I think it is important to look at houses not at the median price, because again, first-time homebuyers generally don't buy houses in the 50th percentile of the price distribution but rather at some lower point. I arbitrarily picked the 25th percentile.

Finally, we have to look at families beyond the traditional family of four because that is, of course, an increasingly large part of the population. As we all know, single mothers with children in fact has been the largest growing family group in the country over the decade of the 1980's.

If you put all this together, here is the picture that emerges. If you look at people at the middle of the income distribution, their housing opportunities in the United States right now are, by and large, just fine, as they can afford their rent, they can afford to save for a downpayment and they can afford principal, interest, and tax payments.

There are, of course, exceptions to this. People from California will know this, New Jersey, New England, the Washington, DC metropolitan area, and New York City. But in general, from a national perspective, people at the middle of the income distribution have good homeownership and good housing opportunities.

However, when we go down to the 25th percentile of the income distribution among renters, a very different picture emerges. These people get hit at three levels. First, rent-to-income ratios. My measure of housing affordability is designed specifically for the purpose of understating any affordability problem so that if I say there is an affordability problem, I know there is an affordability problem. In 32 of the 50 States, people must spend as much as a minimum of 30 percent of their incomes on contract rent. That is not even including utilities.

We say 30 percent is an acceptable level. And it is almost certainly true that the problem is deeper than that. As I said, my measure understates housing affordability. So they are required to pay a large percentage of their income on rent, it is virtually impossible for these families to accumulate savings.

Second, they are being hit at the house pricing level. In a substantial number of States, and this is all documented in my written testimony, house-to-price-income ratios for these families are greater than four to one, which means these low-income people have very little opportunity to save in the first place and have to save 40 percent of their gross income or more in order to be able to make the downpayment on a house, assuming they have to accumulate a 10-percent downpayment, which is fairly standard in the conventional mortgage marketplace.

And finally, despite the fact that interest rates have come down substantially over the last 4 years, despite the fact that housing prices in many parts in the United States have stabilized or even

declined, in almost every State people at this income level are not able to meet Fannie Mae or Freddie Mac standards for principal, interest, tax, and insurance payments to buy a house at the 25th percentile. So these people are being hit at all three levels.

In light of this, it is not surprising that we saw the data that you mentioned at the beginning of your statement today, which is that the homeownership rate in the United States has declined, and as you said, this is a real sea change. We saw an increase from the end of World War II to 1980.

Now, many economists respond to this by saying, well, it is a change to the demographic makeup to the country, and in particular they would note people are waiting longer to get married and have children, and it is in fact true that the tenure choice decision is closely tied to family status, as married couples, all else being equal, are far more likely to want to buy a home than single people.

However, even when we control for that and I present tabulations on this and look at married couples in the 25- to 34-year-old age bracket, home owning has declined, if I remember correctly, in 42 of the 50 States from 1980 to 1990. So after controlling for that demographic, we still see a decline in the homeownership.

Given those set of facts, where we are with affordability and where we are in terms of tenure choice trends, I would like to raise a final issue that might be heretical. Does it matter? Do we really care whether people are homeowners or not?

Now, I know before this body that seems heretical, and if we look at statements from past Americans or, for that matter, non-Americans going back to Alexis de Tocqueville, we will find homilies to the virtue of homeownership. Yet, I think it is fair to say that most economists are not convinced that home owning matters a lot to society as a whole.

While studies have been done showing homeowners are more likely to vote and have their kids finish high school and so on, generally those studies have not controlled for other factors. After all, homeowners are on average higher income, better educated people than nonhomeowners.

Michelle White and I, therefore, decided to look at the question directly and ask the question whether controlling for a variety of characteristics, such as marital status, such as income level, such as education level, such as race, such as neighborhood quality, and a variety of others, does homeownership have any predictive properties for how well the homeowners' kids will do later in life? The measures we used were, did the kids stay in high school until they graduated, do the kids have kids while still in high school or not, and are the kids more or less likely to be arrested?

And surprisingly to us, across a wide variety of data sets and in a wide variety of model specifications, home owning did in fact matter. Children of homeowners, controlling for everything else, were more likely to graduate from high school, were less likely to have kids as teenagers, and were less likely to be arrested than kids of renters. And that suggested that there genuinely is what we economists call an externality to homeownership.

I was surprised because it is very rare you get such consistent results across a variety of data sets. Usually you get mixed results,

and we have to say this needs further study. This certainly does say we should look at more data sets.

If I might finish with a conjecture, I think to the extent that home owning does matter, it is probably because it represents tenure stability and a stake in the community. That means a couple of things. I think it means that homeowners are supposed to have a stake in their community and their house and a stake from their community and from their house.

The consequences of this conjecture follow: First, I think people must put some savings into their house, to have a stake in the house. What that level must be, I don't want to have an argument about that.

But given the rent-to-income ratios we have seen it is impossible for many people to accumulate savings, and that underscores the importance of rental assistance to people at the low end of the income spectrum.

Second, it also means that people who are potential homeowners must be allowed to buy houses in communities where values are stable or might even appreciate. That is what gives them the equity, that is what gives them the stake.

And, of course, this means for minority homeowners' strong enforcement of fair housing laws is terribly important to assuring that any kind of homeownership assistance program will be effective.

Thank you very much for allowing me to testify today.

[The prepared statement of Mr. Richard K. Green can be found in the appendix.]

Chairman GONZALEZ. Thank you very much. We are very much in your debt. Thank you for your statement.

Ms. Marian Siegel.

STATEMENT OF MARIAN I. SIEGEL, DEPUTY DIRECTOR, HOUSING COUNSELING SERVICES INC., WASHINGTON, DC

Ms. SIEGEL. Good morning, Mr. Chairman and members of the subcommittee.

I am Marian Siegel. I am the deputy director of Housing Counseling Services. We are a nonprofit direct service agency in Washington, DC, helping homeowners, homebuyers, tenants, and others to resolve their housing problems.

Housing counselors often feel like the unloved children of the housing field as we are often overlooked in the resolution of problems. In fact, what I would like to talk about today is how housing counseling plays a part in resolving people's problems, and what it is that we see as the greatest barriers our clients face in reaching homeownership.

We are going to assume that the business people and the academics here; the economists, the bankers, and the realtors are going to explain to you and to everybody what the benefits of homeownership are, as Mr. Green mentioned. What we want to focus on are the real needs and the real problems we see on a daily basis.

Right off the bat, I want to recommend to this body and to Congress as a whole that they immediately work to reauthorize the Homeownership Trust Program, and housing counseling programs as a whole, as partners in that program. As housing counselors we

see the American dream of homeownership become a nightmare for our clients if they don't receive the training and the counseling that families need in order to be successful.

Housing Counseling Services was formed in 1972 following the race riots in this city. We were formed as a direct response to an organization that was purchasing, rehabilitating, and selling low-income families their first homes. What that organization found is that within a few months to a year of purchasing their homes, those families were facing immediate problems meeting their payments and keeping their properties maintained. Housing Counseling Services was formed to take on the role of training those families before they got into their homes and before they faced the problems. HCS's goal was to look at housing and homeownership as a permanent solution to these families' problems.

Housing counseling provides a comprehensive approach to a family's housing situation. Counselors first must look at the root causes of the problems families are facing, and their desire for homeownership. Counselors work with families to detail what solutions they have available to them and to help them make their own decision about which is the best approach for them to take. Then as counselors, we help the families to develop the skills that they need in order to see that resolution through and to find them the resources they need to accomplsih that.

In working with our clients who want to purchase homes, we have found that the greatest barriers they face are three things. One is the knowledge and the skills to make homeownership a reality: What is the homeownership process? How do you go about purchasing a home? This is something that isn't taught in public schools, universities, and in many families, must be learned in order to be successful.

The second barrier faced is credit problems: Poor credit histories, a history before they reached assistance, that make them unbankable in traditional mortgage lending terms.

And the third barrier our clients face is saving toward the downpayment and closing costs.

In fact, for Washington, DC, we made some calculations. If we were to assist an average client in saving what they can, based on their income and expenses, $50 a month toward homeownership, it would take them more than 10 years to develop the required downpayment and closing costs to purchase a home.

The first two items I mentioned, the skills and the credit, are what housing counselors work with in detail to assist the family. Ms. Hill will discuss how we actually accomplish that. It is the downpayment assistance that most of our clients need public support for and for that reason we strongly support the National Homeownership Trust.

Ms. Hill is going to walk you through what a client goes through, a typical Housing Counseling Services client, in reaching the dream of homeownership.

[The prepared statement of Ms. Marian Siegel can be found in the appendix.]

STATEMENT OF S. THERESA HILL, COUNSELING PROGRAM ADMINISTRATOR, HOUSING COUNSELING SERVICES, INC., WASHINGTON, DC

Ms. HILL. Good morning. My name is Theresa Hill and I am the counseling program administrator at HCS.

HCS counselors see more than 30 clients a week who wish to purchase their first home. In general, these are hard-working families, often single parents, and 80 percent of which have some past credit problem.

Virtually, none of these clients have the necessary downpayment and closing costs, but they do qualify for mortgages with today's interest rates. Luckily for District clients, they can apply for the DC Home Purchase Assistance Program, with as little as $500 in savings. This program assists first-time low- and moderate-income homebuyers with downpayment and closing assistance.

This very popular District program has assisted more than 1,000 families to purchase their homes in the District since its inception in 1976. I would like to share with you a typical client's situation.

Ms. Wilson came to Housing Counseling Services in 1990. She was wishing to purchase her first home. She was a single mother with two children and for 5 years had been on public assistance. In 1987, when she joined a job training program, she found employment, and her income now was $25,000 a year, and she had $2,000 in savings.

Ms. Wilson had several credit problems and she had 3,500 dollars' worth of debt that she was making minimum payments on each month. Ms. Wilson went to a bank and said she was interested in purchasing a home and the bank referred her to our office for counseling.

The prepurchase counseling session is set up this way: When a client comes in, they sit down with the counselor and the counselor goes over the purchase process from beginning to end. The first part of the process is the counseling, explaining what our services are and what we provide, and how our service is ongoing for these clients.

Then we do a family budget. The budget sometimes is a one-time budget or sometimes the budget is done over months. But we try and do a realistic budget. We try to give the client a realistic idea of what they are spending and what they need to save toward or how they can cut back in certain areas.

We have a credit reporting machine in our office where we can pull the credit report of clients, and analyze and discuss it with the client. If there are any issues on that credit report that need to be discussed or handled, we can assist the client in writing letters and contacting creditors.

Our HCS counselor assisted Ms. Wilson to develop a household budget which allowed her to pay off her entire debt within 1 year, and still she was saving $40 a month toward her homeownership. In order to reduce some of her other spending, we referred her to utility programs for reductions, and we suggested that she cut off her extra phone services and reduce her cable TV services.

We also suggested different buying and saving programs. The HCS counselor assisted Ms. Wilson in resolving her credit problems

by making payment plans on her overdue accounts and writing explanations to her credit report.

Ms. Wilson and HCS stayed in monthly contact so that the counselor could review her progress in meeting her goals. After 1 year, Ms. Wilson was able to apply for the Home Purchase Assistance Program. The counselor completed her application and gathered all verifications. She was approved to purchase a home for $106,000, with HPAP assistance. HPAP provided a second trust of $25,000, and Ms. Wilson invested $2,500. Ms. Wilson is now living in her new home within 15 months of coming to Housing Counseling Services.

In 1993, Ms. Wilson contacted her counselor and told the counselor that she had just been laid off and will be late in making any mortgage payments. The HCS counselor met with Ms. Wilson to work out a new budget and contacted her mortgage company to work out a payment.

What we do in that instance is we first go over the situation with the client, try to pinpoint what the problem is, and then we lay out different resources that the client may have available to them that they are not aware of. Then the client makes a decision on which solution they would like to pursue. The counselor then helps the client to pursue that solution.

In this instance, Ms. Wilson just needed time for her unemployment compensation or new employment to begin. By contacting the mortgage company and by Ms. Wilson having had a good history of paying her mortgage on time, they were willing to give her time to work out a payment plan. Shortly after Ms. Wilson came to our office and we contacted the mortgage company, Ms. Wilson was able to find a new job and maintain her payments.

Housing counselors work with clients to find permanent solutions to their housing problems. We work to help our clients to develop personal skills that will prevent a problem from recurring.

HCS, housing counselors throughout the Nation, and the clients that we represent urge this body to take immediate action to foster homeownership opportunities, including funding the National Homeownership Trust and Housing Counseling Programs.

Thank you for this opportunity.

Chairman GONZALEZ. Thank you very much, Ms. Hill.

Mr. Loza.

STATEMENT OF MOISES LOZA, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL, WASHINGTON, DC

Mr. LOZA. Thank you, Mr. Chairman, and thank the members of this subcommittee for this opportunity.

Before I start my prepared statement I think it appropriate, for those of us who work in affordable housing issues, to constantly remind ourselves of the big debt that we owe you, Mr. Chairman. Those of us from south Texas who have seen your career, through San Antonio and the State legislature and now as chairman of this subcommittee, know full well the diligent and tireless work you have done in trying to make housing more affordable for all Americans. We very much appreciate that.

My name is Moises Loza, and I represent the Housing Assistance Council, a national program that works to make housing affordable in rural areas.

We support the reauthorization of the National Homeownership Trust Act and the demonstration it would create. This new tool could help supplement existing Federal housing programs.

One of our big challenges to date is to increase the opportunities for homeownership. In recent years, rates of homeownership have been declining. As you have stated, Mr. Chairman, from 1980 to 1990, the homeownership percentage of households headed by 25- to 34-year-olds has declined from 51 to 45 percent. In 1991, only about 41 percent of renters aged 25 to 34, even at a mortgage rate of 8 percent, had enough income to buy their first home.

Recent lows in mortgage interest rates have led many to believe that homeownership in the United States is more affordable. Although houses may be cheaper now, fewer people can afford to buy them because of weak income growth. Thus, housing affordability remains a severe housing problem throughout the country.

My testimony today will demonstrate the need that rural America has for a program like the Homeownership Trust. The owner-occupied single family home is a dominant form of housing tenure in rural and nonmetropolitan places in the United States. This is true for all income levels.

According to the 1991 American Housing Survey, 81 percent of rural households and 58 percent of urban households owned their home. These figures do not necessarily mean that housing is more affordable in rural areas, however.

A greater portion of metro-urban residents are cost burdened. However, the difference between rural and urban cost burden rates is actually very small. Census data reveal that there is only a 3-percent difference between the numbers of rural and urban homeowners who are cost burdened.

Data also show that the vast majority of cost-burdened rural households pay more than 35 percent of their incomes for housing, further indication that housing affordability is a severe problem in the rural United States.

Not only do rural households experience housing affordability problems, they are also plagued by very serious housing quality problems. While households in urban parts of the United States are more often overcrowded, rural households are four times more likely to lack complete plumbing. Of all the housing units that are most overcrowded and lack plumbing, almost half are in rural areas.

Another problem is the growing discrepancy between urban and rural wages. Nonmetro earnings per job have fallen in the last several years at a greater rate than metro earnings, putting more rural residents at an even greater disadvantage in the housing market.

Not only is homeownership perhaps the most important part of the American dream, but Federal programs to help Americans attain it have been very successful.

In rural places, the Farmers Home Administration Section 502 Homeownership Program serves, we think, as an assisted housing

model. There are similarities between the Homeownership Trust demonstration and the section 502.

The Housing Assistance Council believes these similarities make an observation of the 502 Program successes germane to the consideration of funding this demonstration. Both programs have a credit elsewhere component designed to eliminate competition with the private sector. Both programs provide interest subsidy. Both have subsidy recapture mechanisms designed to prevent windfall profit at government expense. Both programs provide assistance for owner-occupied housing. The demonstration ensures a very low downpayment, while the Section 502 Program requires none.

The Section 502 Program has assisted 1.8 million rural American families since its inception in 1949. Despite targeting to those with incomes below 80 and 50 percent median income and despite the fact that recipients were not eligible for private credit, the 502 Program has provided mortgage finance with a limited degree of problems or failure.

A study done by the Housing Assistance Council of 849 households that received section 502 loans in 1981 provides an actual measure of program accomplishments. This case study found evidence that the participating households experienced significant improvements in their lives.

For example, income increased by 27.3 percent. Annual subsidy from Farmers Home decreased. This report documents the success of this program in terms of government goals and human achievement.

The Housing Assistance Council believes that the National Homeownership Trust demonstration project is a viable response to the growing problem of homeownership affordability in both rural and urban America. The demonstration will supplement successful Federal homeownership efforts and the demonstration will be able to serve areas in nonmetropolitan America that are not currently served by the Farmers Home Administration programs.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Moises Loza can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. Loza.

We do have notice of a recorded vote. I would rather break than interrupt Mr. Irvine. The reason I pronounced it the other way is we had a former Member who had the same spelling and he pronounced it Irvine, so I just took a calculated risk. I know it is like my last name. Some spell it with an "S" at the end and some with a "Z" at the end. I wanted to say that we will recess for about less than 10 minutes to afford the members a chance to record their vote and return.

[Recess.]

Chairman GONZALEZ. The subcommittee will come to order, please.

I apologize for the longer delay, but we had two votes instead of one.

Mr. Irvine.

STATEMENT OF JAMES R. IRVINE, HOMEBUILDER, PORTLAND, OR, ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME BUILDERS, WASHINGTON, DC

Mr. IRVINE. Thank you very much, Mr. Chairman, and thank you for being a strong housing advocate. We need as many of you as we can get across this fine country.

My name is Jim Irvine. I am a small homebuilder from Portland, Oregon. I build about 25 to 40 homes a year, predominantly for the first-time homebuyer. I have been in business since 1972 and focused on the first-time homebuyer market.

I currently serve as the vice president and treasurer of the National Association of Home Builders. I am here on behalf of NAHB today.

We strongly support the concept embodied in the trust and we share the subcommittee's frustration that it hasn't really received any funding as of yet. And, Mr. Chairman, we applaud your continuing support for this great program that would, if implemented, allow a greater number of renters to become homeowners.

We also applaud the high level of professionalism found in both the majority and minority staff of the subcommittee.

As many have already talked about, and as you have, Mr. Chairman, the hurdles that young people must overcome in order to become homeowners have become more difficult in the past 5 to 10 years. Young households saw their frequency of homeownership drop by over 10 percent since 1980.

The grand assistance envisioned in the National Homeownership Trust gives State and local governments the power to address the multiple problems of affordability that exist in their communities and their States. The strength of this program lies in its flexibility.

Other assistance programs for first-time homebuyers provide needed assistance, but often only in one dimension. The Mortgage Revenue Bond Program provides mortgage payment assistance by reducing interest rates. The FHA Program provides opportunities for first-time homebuyers with little cash to finance a larger portion of their homes.

Even this level of assistance, however, is not sufficient for many deserving, modest-income families. The dual-edged problem many families face in trying to buy their first home is that the smaller the downpayment, the larger the monthly payments.

The Census Bureau report on who can afford to buy a home analyzes the effects of lower interest rates, lower downpayments, and downpayment assistance. Downpayment assistance improves affordability for a significantly larger number of families than do interest rate reductions or lower downpayment requirements. For instance, a $5,000 downpayment assistance allows an additional 4¼ million renter families to afford a modestly priced home using FHA financing.

As a builder, I have had experience where we have used a $5,000 downpayment assistance to provide opportunities for homeownership for families in the 80 to 85 percent median income range and at the same time expand the use of rental assistance voucher programs.

I am going to provide to the staff the model that we have used in Oregon and several locations, on how we have in fact done this.

Contrary to the downpayment assistance, and although beneficial, buying down the interest rate 2 percentage points increases the number able to afford by only 173,000 families. Reducing the downpayment requirement from 5 percent to 2.5 percent increases the number able to purchase a home by 194,000.

All of these options for assistance in the National Homeownership Trust, however, do provide the needed flexibility. If interest rates are relatively high, then an interest rate buydown may be more beneficial than help with the downpayment. Conversely, if interest rates are low like they are now, then help with the downpayment may be more beneficial.

NAHB has compared the options analyzed by the Census Bureau with our estimates of the potential Federal cost. Our estimated potential cost per loan for downpayment assistance and interest buydowns are shown in our written statement. However, to summarize them, interest rate buydowns in our estimation are a relatively expensive way to help.

Downpayment assistance, on the other hand, is relatively less expensive and affects a significantly larger percentage of renter families. This is primarily due to the ability of homebuyers to repay the grant after a comparatively short period of time.

Mr. Chairman, we believe your concept of the trust is extremely sound, much as the concept behind the Section 235 Program was sound. Currently, the program is designed with a repayment requirement if there is sufficient equity to cover the assistance. We recommend this requirement be modified to allow every owner to benefit from the potential house price appreciation. This creates a strong stake for the family in both the community and their own future. It also assures better care and improvement of the home itself.

While somewhat complex, we would recommend that the National Homeownership Trust adopt the spirit of the MRB recapture provisions. The MRB Program is in place in States where communities and housing advocacy groups are familiar with these recapture provisions. And they have developed the necessary understanding to effectively implement them.

With respect to administering the program, options other than HUD potentially exist, and our written statement elaborates on many of these. But regardless of its structure, the National Housing Trust remains a flexible and needed stimulus program for potential buyers and the overall economy as well.

You have seen our buttons, Housing Equals Jobs, and we think that that is an important phrase and an accurate axiom of what is the reality.

For every 100,000 homes that are built—and we can increase that by a program such as this—for every 100,000 homes built, it means 174,000 new jobs. There is a direct correlation, as you have already articulated, Mr. Chairman.

So thank you again, Mr. Chairman, for the opportunity to appear before the subcommittee. If you have any questions, I would be glad to respond to them.

[The prepared statement of Mr. James Irvine can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

Mr. Harps.

STATEMENT OF RICHARD R. HARPS, PAST CHAIRMAN, HOUSING AND COMMUNITY DEVELOPMENT COMMITTEE, NATIONAL ASSOCIATION OF REALTORS, WASHINGTON, DC

Mr. HARPS. Thank you, Mr. Chairman.

My name is Richard Harps. I am a realtor from Washington, DC and former chairman of the National Association of Realtors Housing and Community Development Committee. On behalf of the National Association of Realtors, I would like to thank you for the opportunity to testify today on the difficulties faced by potential first-time homebuyers and on the National Homeownership Trust.

As I indicated in my testimony before this subcommittee in 1988, the National Association of Realtors has a long tradition of support for innovative and effective Federal programs that are intended to benefit first-time and low- and moderate-income homebuyers. The inclusion of the National Homeownership Trust demonstration in the Cranston-Gonzalez National Affordable Housing Act was a constructive and unique contribution to the Federal Government's efforts to strive toward that goal.

As a nation, we must ensure that every citizen has an opportunity to enter the housing arena. Housing might be viewed as a series or a ladder of opportunities. The first few rungs of the ladder are steps through rental housing, represented by persons of low and moderate incomes. First-time homebuyers represent the middle of the ladder, with repeat homebuyers moving up the succeeding steps.

The current stabilization of homeownership rates masks underlying housing problems that have been recently growing. The National Association of Realtors is very concerned that families are finding it increasingly difficult to save for a downpayment on a home, and that this trend will hamper the ability of our citizens to climb the housing ladder to homeownership.

The discrepancy between rental costs and ownership costs highlights the difficulties faced by potential first-time homebuyers. Although costs of ownership have actually fallen in real terms over the last decade largely because of the reductions in interest rates costs but also because of some other declines, renters have faced rising costs of living without commensurate income increases, and hence many have encountered insurmountable hurdles in accumulating the necessary downpayment and closing costs.

If we are to help first-time, entry-level homebuyers move up the housing ladder, we must help them surmount what has become the fundamental barrier, the inability to accumulate a downpayment.

Currently nearly 60 percent of the households in the United States and over 90 percent of renters are unable to afford the median price home in the area. Even moderately priced starter homes are out of reach of 50 percent of American families and 85 percent of renters. The primary reason that these families are unable to buy homes is because they lack the necessary cash to make the downpayment and pay the closing costs.

Among renters who cannot afford to buy either the median-price home or the starter home, more than 35 percent cannot buy because they do not have the money for a downpayment.

The difficulty accumulating enough money for the up-front costs of home buying, however, has not deterred most renters from wanting to ascend the housing ladder and become homeowners. NAR finds that more than two-thirds of renters want to buy a home some day but more than 40 percent of them expect to have to save 2 to 5 years in order to save enough to pay the downpayment. Another 13 percent believe it will take even longer.

Thirty-one percent of these renters believe they will be able to obtain downpayment assistance from the Federal Government, but the actual experience of most first-time homebuyers is that very few really receive any assistance on downpayments from the Federal Government.

So providing first-time homebuyers with downpayment assistance is probably one of the most substantive things the Federal Government can do to improve the standard of living of millions of U.S. families.

Such assistance is especially important at a time when house prices and hence minimal allowable downpayments as well as closing costs are rising faster than the rate of income growth. Between 1988 and 1992, median home prices rose 16 percent in the United States. Median household income rose only 13 percent. And median renter household income rose only 10.6 percent. This divergence between income growth and the rise in up-front costs of home buying has made it increasingly difficult for families to save out of their current income.

Removing barriers to saving in conjunction with downpayment assistance will go a long way toward assisting families in buying homes and improving their standards of living.

As I previously indicated, NAR supports the implementation of the National Homeownership Trust Demonstration Program. However, NAR believes that some of the concerns that we mentioned in previous testimony are still valid today.

There still exists a concern that the trust subsidy will insulate a homebuyer from taking advantage of improved economic conditions such as today's low interest rates. For example, a loan originated in 1988 with an interest rate of nearly 10 percent, in the absence of a Federal subsidy, that homeowner would have refinanced at least once by today, maybe twice, and gotten their rate down to current levels. However, a homeowner assisted by the trust would derive no immediate benefit from refinancing. The only benefit accruing to the homeowner by refinancing would be the reduction of the overall repayment charge, something that is not going to happen or even be determined until some future distant date.

Therefore, we believe that the housing trust proposal should provide a mechanism and an incentive for homeowners to refinance their trust subsidized loans during periods of improved economic conditions.

We also question the need for the provision in the statute that states that the trust subsidy may only be provided if the mortgage has been made to or is held by a mortgagee that is federally insured or that is otherwise approved by the trust as responsible and able to service the mortgage properly.

As the members of the subcommittee are aware, a vast majority of FHA loans plus a significant amount of conventional loans are

made by private mortgage banking companies who are not federally insured institutions. While the law would allow the trust to expand the list of approved institutions, we believe the statute should explicitly allow mortgage banking firms to participate in the program.

In conclusion, Mr. Chairman, members of the subcommittee, let me once again thank you for providing me this opportunity to testify on behalf of the National Association of Realtors. We look forward to working with you and your staff on the implementation and the funding of this program in the future. And we would be happy to answer any questions that you have.

Thank you.

[The prepared statement of Mr. Richard Harps can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

The testimony has been exceptionally good and valuable. The suggestions are good. However, some, I believe, have been addressed.

The main intent in the beginning, which I thought was the desirable feature of the trust, was that it would work through the existing and experienced institutions, S&Ls, for instance. The cap on the interest rate would provide the program stability and which, if trends continue, may find itself an endangered species, because of other reasons in the financial environment.

That, of course, gives rise to the fundamental reason for the offering of this, as a beginning of an effort to modernize the framework of financial reference and to make a reality the national commitment to the ownership of affordable, safe, and decent housing for every American family that need it or desire it.

I think some of the factors and tremendous societal changes, demographic as well as tremendous technological developments, since the end of the war changed forever and a day not only the conditions domestically but worldwide. Some of those changes have brought upon today such a force and that they can overwhelm whatever efforts are made on the domestic level, such as in financing and interest rates.

The Federal Reserve now admits its control over the interest rate. It didn't, for so many years and so many chairmen in the last 32 years, ever come up and say, interest rates, we control that. In fact, Congress, they said, has more responsibility because it must balance the budget or stop undesirable expenditures, which impact the interest rates.

Finally, the existing chairman of the Federal Reserve and the previous one finally admitted that the Fed did have everything to do with determining domestic interest rates. However, that itself ceased to happen, since the middle 1980's, when we became a debtor nation. Because of gridlock, the Fed no longer has control, because there are external forces over which we no longer have control since the middle 1980's that can impact on the interest rates.

For example, the Treasury's funding and refunding schemes have great impact. During the 1980's, Japan, for instance, had as much as 35 percent ownership of our Treasury bills, and that statistic doesn't take into account other countries. The investment in the ac-

quisition of direct asset acquisition and indirect asset acquisition property has been attributed to Japan. The British, however, have 2½ times what the Japanese have, and there isn't much reference to that.

Those are factors over which we have no control, and the Fed doesn't either, because if interest rates go down, they fail to attract those investors. The withdrawal of that investment will have a negative effect, and the Japanese have been withdrawing, and I think the last venture on the sale of the 10-year government bonds is a good warning signal. Well, it was more than warning, because the warning has been there.

In light of historians at *The Wall Street Journal*, if interest rates go back up, and there are no controls we may be at risk. The Nation has not had a national interest or usury law, if you want to call it that, since 1865. It did until 1865, from the very beginning. There was nothing, therefore, to prevent what happened in 1979 or 1980, when a prime interest rate would have reached such an unbelievable degree of 20 and 21 percent. What would that do, for instance, to the home construction, and its line of credit or ability to obtain a line of credit?

If that is not stabilized, we will be continually facing these recurring, abrupt gyrations and difficulty in joining the credit availability with what the producers need in order to produce.

Other countries, unlike us, do have a measure of control, such as Japan. This was noted when I was a member of the Small Business Committee, in the case of the tool manufacturers of the United States. Time-honored corporations in the Northeast, Connecticut and the like, were family-owned corporations that had been producing the basic tool for 100 years. They couldn't compete if they had to pay for credit for their money, for their inventory, in the amount of 17 percent. If the Japanese competitor would pay no more than 7 percent, there is no way you could compete, and that translates to everything up and down the line in our economy.

It was interesting that you mentioned section 235 as being workable, Mr. Irvine, because that was the experience in my part of the country. It was an integral and successful part in those areas, unlike in other areas in which it sank into scandal which led to its elimination in 1972. After the Nixon administration won the election, the scandals in the Middle West, Chicago, and other areas arose. The reason there, unlike our part of the country where it did work, was counseling.

You had HUD administrators in those areas where it was successful that had enough sense, even though their personnel had been curtailed, to offer a little extra help to that new section 235 home purchaser. Counseling made the difference.

For that reason, I am very impressed with the work you do, Ms. Siegel and Ms. Hill. I think we owe a tremendous debt to you.

The main thing I see is that unless we attempt to restore the basic concept and the financial frame of reference, and tie it into a national commitment to produce housing, the country will suffer. Because at this point, the reason there is a temporary appearance of a healthy economy is that the money supply just in this last quarter is at about 3.5 percent. There are also indications from the

Fed or the Open Market Committee that there may be a need to increase some of the downward interest rate levels.

Now, we have a tremendous buildup in the secondary mortgage market based on the refinancing of mortgages on the part of so many mortgage holders taking advantage of the low interest rates. As a result, the dilemma presented and reflected in Massachusetts now exists, and a bill has been introduced by Congressman Kennedy. In fact, our subcommittee will probably go to his area to look over the situation which has labeled as underwater mortgages where the size of the mortgage obligation exceeds the value.

When you have these instabilities and aberrations in the money markets, and in interest rates these situations occur. And that was one of the things we thought was absolutely important and integral for any program developed to address by salvaging the original purpose, such as S&Ls, and here is a mechanism.

We felt that this program would not demand a new bureaucratic effort. Just like our emergency economic recovery, H.R. 7, it was based on the premise that, as you indicated, Mr. Irvine, housing construction would bring, with the $30 billion we had targeted, better than 650,000 jobs.

The difference between this kind of expenditure and the others, which the false economizers failed to see, is that these activities add to the substance of the country. They provide a multiplier effect for generations, because you are going to build, you are going to construct, you are going to create, and in the meanwhile producing jobs. Until that is done, we will not get out of this economic dilemma.

In fact, I see with great horror the Vice President trying to act like the megacorporations in what they call downsizing and turning out hundreds of thousands of employees. Every week you read about some several thousands who are out of work. Where are they going to get a job? And if the government does this willy-nilly, as I think unfortunately the Vice President's so-called reinventing program does, I think it compounds the problem. That is my own personal observation.

The reason that I believe a basic approach is necessary is that we have to somehow restructure that which worked and that is predicated on these basic principles.

Now, we have had programs such as section 235, in some areas it didn't work, because, as I said, it fell into scandal. I deplore the fact that the decision was just to terminate the program, because I can't begin to tell you, Mr. Green, what it accomplished. The only real reward in this work is when a citizen comes up, that you haven't met, comes to you and says, say, Congressman, I wanted to tell you that my family and I will never be able to thank you enough for that section 235. We bought this house that was built by this builder, a very prominent builder in San Antonio, on the south side of town. And he said, my ability to do that has enabled my son to go to college. I ran into him happenstance, and he just felt impelled to tell me that. I can't begin to tell you what that means in the way of satisfaction. This citizen was saying, I was able to live decently, have the pride of ownership, and at the same time give my son the opportunity to go to college.

He explained the circumstances under which they had lived before in which he was paying an inordinate part of his income for rent.

So the only question I had for Ms. Siegel, what has been the basis of your clientele? Have you had outreach programs?

Ms. SIEGEL. Since we have been in business for more than 20 years, we have good word-of-mouth publicity at this point. We do workshops once a month and public service announcements. We don't lack for clients. There is so much need out there.

Chairman GONZALEZ. Very good. I may submit some questions, because I have exceeded my time, in fact gone a little bit over, to the panel. Maybe we will have some chance by the time noon comes around, to ask you a few here instead of sending them in writing, otherwise I will submit them in writing. I had some for Mr. Green, whose expertise is a tremendous contribution to this deliberation.

Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I am on my way to another meeting as well, but let me just say that I have appreciated the testimony here today. Mr. Green has broached another subject that I hadn't really applied to homeownership.

I am going to submit a question to you. I don't know whether your research has evaluated the relative relationship between decline in homeownership and what component of that is—I don't want you to answer it now. I want you to put it in writing.

What component of the decline in homeownership is the consequence of instability in social and demographic changes that you outlined, single parents, divorce rates, and so forth?

I would like you to put that in writing. It is an interesting aspect of the whole question.

[The information referred to can be found in the appendix.]

I regretfully was not here when our homebuilder, Mr. Irvine, was speaking, but I do have a question, and if you could just amplify a bit on your statements or references to mortgage revenue bonds.

In New Jersey they have been very, very successful and a very useful mechanism, and I don't know quite what you meant when you stated that mortgage revenue bonds are not sufficient for many deserving modest-income families. I don't know that that is a quote, but I have been informed that is essentially your statement. Could you amplify on that for me, please?

Mr. IRVINE. Yes, Mrs. Roukema, Mr. Chairman. Mortgage revenue bonds have been a great assistance to many households in this country and allowed many families, in fact, to gain homeownership opportunities. Mortgage revenue bonds, however, do not address the issue of downpayment assistance, the ability of people to meet their downpayment need.

And I believe the National Homeownership Trust, with its flexibility, and our association believes, with its flexibility, will allow communities to address either whether downpayments are a critical issue at this particular time when mortgage interest rates are particularly low, and that becomes a bigger impediment to homeownership, or maybe when mortgage interest rates are higher, which we hope won't happen. But if they do become higher, then

the Mortgage Revenue Bond Program in its own right helps, because even though families aren't able to come up with the downpayment, those that receive mortgage revenue bond assistance need that to be able to qualify to buy a home just because of the high cost of interest at that particular time.

So mortgage revenue bonds have always been supported by our association. We believe they really do help. But as the numbers I outlined in my testimony reflect, and as the written testimony elaborates on, you are dealing with the downpayment assistance and how it could affect homeownership—could help 4¼ million families access homeownership, where the Mortgage Revenue Bond Program doesn't get that large a target.

Mrs. ROUKEMA. Thank you.

I will certainly go over your testimony in some detail. You should feel free to add anything supplementary to your comments here today.

Thank you very much, Mr. Chairman.

Chairman GONZALEZ. Thank you again, Mrs. Roukema.

I would like to go back, because I really didn't complete my thought, when I said that this quarter it looked like the monetary growth would be 3.5 percent, and that would be the reason for the present little spurt of apparent activity. Overall, since Mr. Bush's regime, the Fed has actually had the brake on, because it averages about 1.5 percent, which is way below their own goals as the chairman announced. I call it a tax, but they are over there, and they have got a year or two, free from any accountability.

It is a reason Mr. Bush had a hard time last year in the polls, it doesn't mean that this administration or, for that matter, the people are free. These tremendous pressures over which we no longer have control, these forces, are impacting us daily, and giving rise to flux and instability. With all of that, it doesn't sound as if we could connect it to the processes.

The other thing has to do with the simple days where in my case, I wasn't able to think of even purchasing a home until 1963. At that time, I had an opportunity to move my growing family—my wife and I ended up with eight children—which was living in a very crowded duplex, since the war period. It wasn't actually until afterwards, 1963, that I had an opportunity to buy a better than 7-year-old two-story frame house, for $7,300, and I was able to muster a downpayment of $1,500. My monthly payments were $72 a month, but I negotiated that with the owner.

Then in 1967, I had a chance to move to better housing, and moved into an older but very prestigious area. It is still within the central part of the city, but it has got these old but very substantial homes. The reason I was able to look at it was that the owner had put it on the market originally at $50,000. It is a two-story house, in fact, and to show you the type of construction, the gutters are 100 percent copper. You have these good, old, solid high ceilings, but no central heating or central air conditioning.

The owner had it on the market for about a year, and then somehow or other he couldn't sell it. For $35,000, couples could buy a brand new home further out, with all of the modern conveniences, such as central air, central heating, modern kitchen, and the like.

So he finally sent word through a mutual friend that he thought I ought to be interested in it, and that he would reduce his asking price to $40,000. Well, being that I had just finally, after coming up here, accumulated enough money to finish paying out the $7,300, I didn't want to get into debt because every 2 years we didn't know what would happen. However, I was finally persuaded to take a look at it. And I said, at $40,000, I don't know, I wouldn't want to get into it unless I had a good downpayment at this point.

So about 6 months later, the owner called me, and said, look, I reduced the price, I am going to let you have it for about $39,000. I said, well, I don't know. He said, well, I will tell you what. You can have it with all the drapes and the rugs and everything else in there. At $40,000 he was going to remove all of that. So then my wife got interested because it was a house that was larger than that other two-story frame. And we had the eight children. And so I took another look. In desperation the owner said, if you will really want to buy it, I will let you have it for $36,000.

So at that point, the little savings I had, and I borrowed, and I went to the bank because the interest rates were 6.3 percent, and there was some talk that they were going to increase.

So I went to the bank and I plunked down about $10,000, mostly so that I could have a monthly payment that would be very affordable, so I had a 15-year mortgage, and paid $221.24 a month, and finally, after the 15 years, I paid it all out. That was 1982, 1983.

I have been offered over $200,000 for that same house. So when the first offer was made, and this was about, oh, 1981, 1982, I knew something was wrong; $225,000 for something that I had paid $36,000. Incidentally, it is still assessed market value, taxwise, even though since the tremendous impact after 1946 property values in my area, between December 1976 and 1986 and the first quarter of 1987, declined 40 percent. It was that kind of precipitous thing.

The city of San Antonio, my hometown, as of at least the year before last and the year before that, had lost $1 billion a year in assessed valuations, but now, in the case of my property, they had had an assessed valuation of more than $225,000. Today, they are still trying to maintain that level in that area, I guess.

This kind of tremendous flux is something that costs our society, because it is reflected in what ironically happened right after the war, when construction started again, which was a tremendous doubling up in single family dwellings. There isn't an area in our country where that does not exist.

In fact, in this metropolitan area, over across the river, we noted cases where you had not one but two or sometimes three families doubling and tripling up in a single family residence.

So the problems that brings about exist, and because I know we have a housing crisis. Those of us that have nice, comfortable homes, or we rent, perhaps have a tendency to forget our fellow citizens that have the nightmare constantly confronting them of losing their job, being evicted or defaulting on a mortgage. There is an old Irish saying that it is easy to sleep on somebody else's wound. But, when we have reached the point we have in this country as far as unavailable affordable housing, whether it is for lease

or rent, or much less homeownership, you don't have to be a prophet to know we are going to have social disturbances and problems.

I have been saying this for several years. This has happened in every other country, in Berlin, in Germany, in Paris, in France, in Brussels, in Belgium, and in England. In every one of those countries they embarked during the 1970's and 1980's on a national commitment to provide housing. At that time, you had rent squatters, you had violence, you had the police trying to evict, you had deaths. In Berlin, two people were killed, Brussels, three, Paris, more. Even in London there were deaths, because you had the squatters that said, by golly, I am going to live here, and I am just going to squat here.

In the early 1980's, we had that in some of the areas where you had abandoned property, but it didn't really become a national thing. It was like the Vietnam war, as long as the kid across the tracks was the one getting drafted, those of us on the other side living comfortably didn't worry much. We didn't start worrying until all of a sudden our kids began to face the draft. I remember this vividly, and it is the same thing with housing, but now it is beginning to impact the white-collar level, with the concomitant problem of unemployment.

What we have had before has been the blue-collar problem. In the meanwhile the housing stock, public housing for the very poor, has lost 45 percent of its inventory. The pressures build up, but it can't help but do that. It isn't until we see the net impact of the combination of unemployment and housing unaffordability when we can determine the results.

Now, you mentioned some wage statistics. Actually, in the last decade or 6-year period, the average wage declined about 6.5 percent overall in the United States.

The most disturbing statistic, Dr. Green, was one that I read over 3 years ago where it was estimated that better than 70 percent of the families at the end of the month had no disposable income. The source was very reliable, the statistical source.

So to say that the thing that will help most of all is to have our American families save money, is really moot, if you don't have any at the end of the month you can save. I think that even Members of Congress, the average Member, particularly the young, don't know what it is at the end of a month to say, well, I wonder if this paycheck is going to stretch to buy the wife the dress, pay the mortgage or the rent, and buy the food. Until you have that experience, you have a different perspective on things.

Maybe the fact is that being a Depression-era kid has left an indelible memory. It has a lot to do with it. But I do believe that the very thing that you are testifying on today is the vital question: How can we continue? Up to now it looks like we might have a favorable chance again when we extend all of the affordable housing programs, which will be done this next session, this next year. We intend to continue this effort.

What success we will have as far as having a meaningful push from both the leadership in the Congress and the administration, I can't say. The President's budget actually, when it comes to housing, isn't very different from Mr. Bush's, lamentably, but those are the facts staring us in the face.

Your testimony, given this range of experience, is invaluable. There was one question I had for you, Dr. Green.

In your opinion, how important is it for the low-income housing programs to be portable? That is, does it matter that the funds from the program, or these earmarked for the program, can be used in any part of a metropolitan area?

Mr. GREEN. I think that is extremely important. I think one of the reasons some housing programs have not worked particularly well is that they have forced people to buy houses that were in the process of losing their value. And without the equity stake in the house, you can lose that reason for the tenure security, which I speculated leads to these other positive outcomes.

So I think programs such as this one that allows people to buy housing in any part of an area, including areas where prices are stable or are increasing some, is very important, because it is that equity stake that likely makes the difference.

Chairman GONZALEZ. I appreciate that opinion.

Ms. Siegel, I really don't have sufficient words with which to express my own personal gratitude for the work you do. It is so inspiring to see. But what is the most important factor in preventing a foreclosure, in your opinion?

Ms. SIEGEL. In preventing——

Chairman GONZALEZ. In preventing a foreclosure.

Ms. SIEGEL. Well, what we see as the greatest barrier is when a client gets to us too late. We have too many clients that come to us 2 days, 3 days, a week before actual foreclosure is scheduled.

So we really need to get to our clients as quickly as possible, and more recently lenders have been referring their delinquent clients who are 1 month delinquent to us. That has made a tremendous difference with our success in solving the delinquency and preventing the foreclosure.

Chairman GONZALEZ. I noticed in Ms. Hill's testimony that a referral had been made.

Well, Mr. Loza, you and I have long worked together, and your invaluable knowledge of the rural situation has been most instrumental in the legislation we have begun, not only the particular program you have referred to but the others.

Why, would you say, or what reason would you give, with other housing programs supposedly available, that there would be a need for another federally assisted housing program?

Mr. LOZA. Well, Mr. Chairman, as you know, the housing programs are intended to address particular populations, and what we are seeing, for example, in the rural housing programs are limitations not just in resources, but also in the eligible population areas.

This particular demonstration in some ways copies the 235 Program, as has been mentioned, also the 502 Program. The 235 Program is not around anymore. The 502 Program is limited by population eligibility to amounts of $10-, $20-, and in some cases $25,000. There is a vast area in terms of urban areas where this demonstration could be applied and cover that very large gap of eligible families that could take advantage of this program.

The program supplements and fills some gaps that aren't being filled with the existing programs, as good as many of them are.

Chairman GONZALEZ. I wanted to say, Mr. Irvine, that in both the trust as well as in H.R. 7, the National Home Builders endorsed both, so did the Mortgage Bankers, so did the League of Cities, and so did the Governors Association. Despite that, our leadership didn't think it was the thing to do, so we have our problems right here. You did answer some of the questions I had anticipated asking in your testimony.

Under the existing circumstances, assuming we were to have a reauthorization and at least funding as close to the authorized level that we have in the bill, do you have any idea as to what percentage or what kind of number of families you could realistically help in purchasing a home?

Mr. IRVINE. We will be glad to get this to you in more elaborate detail, but just briefly, 125,000 families could be assisted using the $500 million number for appropriations.

Chairman GONZALEZ. We would appreciate that information, particularly when we get the bill in and when we get to the markup.

[The following information was subsequently received from Mr. Irvine:]

There is no question that the only limit to the number of homebuyers that can be helped by the National Homeownership Trust is the appropriation limit. The need for downpayment assistance among low- and moderate-income families is extensive. According to the Census Bureau report, "Who Can Afford to Buy A House in 1991?", 2.3 million additional renter families could afford to purchase a modestly priced home (one priced at 75 percent of the median priced home in the area) if given an extra $2,500 toward the downpayment. The number that could afford to buy increases to 4.2 million if the downpayment assistance is $5,000.

At a funding level of $500 million per year for the Trust, a $4,000 downpayment grant to each eligible homebuyer would allow 125,000 families to purchase a home. While the actual level of the grant would depend on each buyer's situation, a $4,000 grant would cover the downpayment and closing costs on a $75,000 house, which is about 75 percent of the national median existing home sales price.

Mr. IRVINE. Please, as I mentioned in my testimony, don't forget, however, the jobs that it would create in terms of the number of housing units produced, because of the unmet needs that are in fact out there.

Chairman GONZALEZ. There is no question. I have been the beneficiary of having great acquaintances. For instance, the architect of the 1947 Housing Act, and President Truman's economic adviser, Leon Kaiser Lynn, I got to know him, became a very good friend of his, and he in my mind was one of the greatest economists I have ever known of.

In fact, he is the one that actually is the author of the so-called Hawkins-Humphrey Act. In fact, he had wanted me to introduce it, but I wasn't chairman of anything, and I thought we ought to let Mr. Hawkins, who was chairman of the Labor and Education Committee, handle it.

Of course, Senator Humphrey, who was also a great friend and ally of mine, would often sit and chart exactly what would be happening in this country. He would take every recession and say, look, here is the first one, and it bottomed out quite shallow, and the second one a little deeper, took a little longer, the third deeper and much longer. He said, it won't be long before it will be very deep and very long.

When 1990 came along, we had Chairman Greenspan here, exactly 3 years ago this last month of October, to testify on the eco-

nomic impact of the preparations under way known as the gulf effort. This was before the President announced his intention to double the size of the contingent, what turned out to be the expeditionary force. Mr. Greenspan answered to questions from others and stated that the Secretary of State had said that the whole venture could be summed up in one word, and it was jobs. He wasn't talking about rescuing Kuwait or anything, he said jobs, and protecting our source of oil.

So we thought, this is beginning to have an impact, let's have the Chairman testify. The Chairman came in and said, well, I am not ready to say we are in a recession, although all of the unemployment figures are very disturbing, and otherwise would indicate that we are headed toward one, but I would say that, in another month or two, it may be here. At this point, I will state that 70 percent of the adverse impact on our economy is due to this effort. It is in the record, but nobody picked up on it. We had fragmentary, sort of peripheral hearings on that last year, but not really centrally asking that question. So Dr. Kaiser Lynn very well predicted the recession, and we have not come out of it since 1990.

I used to ask all of the greatest known economists that have testified at this subcommittee at one time or another during the 32 years I have been a Member here, how would you define the difference between a recession and a depression? Invariably, their answer was, if a recession were to last more than a year, it was a depression condition. Well, we have had adverse conditions that have endured since 1990, in fact, that point in time. There are some economists that have said, well, it actually started in the summer, but we were having our hearing in October. So we have that dilemma. I would ask Mr. Harps, Mr. Green, and of course, Mr. Irvine, don't you find that there is a linkage here between the economic conditions we are going through and the situation in housing, finance, and affordability? Do you believe there is some relationship there, or do you perceive any relationship?

Mr. HARPS. Is there a relationship between housing affordability and the current economic state of the country, whatever we are in?

Chairman GONZALEZ. Yes, sir.

Mr. HARPS. With——

Chairman GONZALEZ. Excuse me. We have in my opinion a very undesirable and unacceptable rate of unemployment. It is now, as of 2 days ago, reported that the Bureau of Statistics had been grossly underestimating it. But even at 7, 7.5 it is high. They said it would be more if you brought in all of those that have not been factored in but are actually unemployed and have dropped out of the picture. I think more than anything else that factor would be reflected in a realtor's daily working. Am I correct? Or is that a wrong assumption?

Mr. HARPS. No, I don't think you are incorrect, and I think it spreads out. This is Richard Harps, commercial appraiser in Washington, DC speaking right now.

Chairman GONZALEZ. I understand.

Mr. HARPS. What is happening around here insofar as people's ability to plan for the future, which is what buying a house is all about, has, I think, most people who don't already own a house afraid to get into it. Jobs are marginal in many cases. There is not

enough income coming in from many of these jobs, regardless of what level of interest rate subsidy there is. If you divide it by 360, you don't get enough dollars a month to pay the principal, forget the interest.

All of those factors, I think, filter all the way through the economy. I mean, they don't just start with housing. They start with some family issue, probably, that is greater than housing. I don't know where you start to solve those problems, sir.

Chairman GONZALEZ. I think Mr. Irvine and, I think, I touched on it, that has happened in the past when we have had these recessions, and there was a government-led effort in construction to turn the economy around. If you build, you employ.

In the first year I was here, I met President Kennedy. The President I was personally the closest to was President Kennedy, and I first met him in 1951 and we had a far closer personal relationship than I ever had with my own fellow Texan, President Johnson. The administration sent over the 1962 tax reduction, and I began to raise questions and whatnot. He sent over his special assistant, a fellow by the name of Henry Wilson, who said, hey, listen, we understand you may not vote for this fast, accelerated tax writeoff. I said, I have questions that haven't been answered. I am literally new here and I want to be loyal to the President, but I want the questions answered.

Well, lo and behold, he sent me Walter Heller, the economist and the architect. It was a real lesson, because they were saying this is going to destroy the budget, and so forth, and so forth. Mr. Heller said, look, we were talking about deficit spending. The criticism of President Kennedy was very intense but that was forgotten after his death. I had to face it every day from Texas.

Mr. Heller said, look, of course, you have deficit spending, and a balanced budget is fine. All corporate activity of those entities that range almost in governmental science, General Motors, the others, all work through deficit spending. They issue bonds, they borrow money. As long as their economy is in balance; that is, as long as General Motors is manufacturing and selling automobiles, AT&T is increasing phone subscribers and everything else, they have no problem managing that debt because they have a balanced economy. They are making profit.

It is the same thing with the government. If people are working, if factories are producing, they are also producing revenue for the Treasury. A person has a job, he earns income, he pays taxes. If a corporation produces goods and sells and makes a profit, it pays taxes.

So if the economy is in balance, and the debt or the deficit is managed and therefore susceptible to management, there is nothing wrong with that. In fact, it is going to enhance conditions.

Well, he sold me. It was something that he hadn't quite perceived. And it was very true. So when the 1981 Tax bill came up, and Jack Kemp, who was a colleague, was trying to talk me into it, he was telling me it was the same as Kennedy's, and he said, where is your tie-in? Mr. Heller pointed out that the fast accelerated tax writeoff to a factory would inure only after that factory had retooled for increased production or employment, and then it qualified for the tax writeoff.

So Mr. Kemp said, well, no, that is why I want you to commit to the Tax bill, because it is going to be the same as Kennedy's business and manufacturing to save on their taxes and pour that money into retooling, production, and hiring.

I said, where is your tie-in clause? He was kind of puzzled. I said, If I don't see that, then I will tell you, it isn't the same as Kennedy's 1962 tax package. Of course, they didn't have one.

He came back to me a couple of days later and said, I will tell you what, you will just have to trust business. I said, well, I am not from Missouri, so you will have to show me, and I am, and I haven't, not going to vote for it if you don't.

And I have not seen the intensive lobbying, until yesterday on this so-called agreement, since 1981. I had 157 of the top corporations, that is, of the Fortune 500, send me identical telegrams. It was telegrams in that day and time. "We demand that you vote for this Tax bill. We have economic activity in your area and State, and if this doesn't go through, we may not be able to continue it."

Well, apparently whoever prepared that form didn't bother to look at my district, as it has been redistricted, and none of their activities were anywhere near my district. But even that, I didn't think, was the argument. The argument was, what is going to happen?

Well, that Tax bill reduced by $755 billion over 5 years that amount of revenue to the Treasury. At the same time, the corporate activities that saved their tax money, where did the money go? It didn't go to production. It didn't go to manufacturing. It didn't produce added employment. It went into speculative endeavors and takeovers and mergers and everything which is the reason that I didn't vote for that bill.

The intensive pressure was there. There were critical votes—I think the margin was four on the most critical—and it came from my Texas colleagues. So again, I found myself kind of isolated. But I have those fundamental questions. And I will act if they are answered. But if they are not, I keep pressing forward.

I was going to ask for some comment, perhaps, from Mr. Harps and the others, in the Housing and Community Development Act of 1992, last year, the Trust Program was extended through fiscal year 1994. Several other changes were made. We placed a maximum on the assisted payments the trust would pay to the participating homebuyers' mortgage. Those limits are 2 percent of the total principal obligation in the first year, 1.5 percent in the second year, 1 percent in the third year, and five-tenths of 1 percent in the fourth year. Now, that was done to satisfy some of the give and take we thought was going to lead to funding the program.

My question is, and it could be to any of the panel, do you believe that capping the interest rate subsidy was a good move in that fashion?

Mr. HARPS. The National Association of Realtors and Richard Harps does, sir. The danger in not capping it and the risk to the trust and the Treasury of not capping it far outweighs the dangers of capping it. If you cap it, and rates go up, you will still be able to serve a number of people. If it is uncapped and a small number of people are getting a huge subsidy, the number of people you are

able to serve is going to decrease immeasurably. We think more people is better than fewer people.

Chairman GONZALEZ. Thank you.

Does anybody have a comment on that?

Mr. IRVINE. National Association of Home Builders, I think we would—the FHA has gone to negotiated rates. We think we would prefer no cap. We feel that in fact the market can in fact respond better in that environment. FHA has in fact shown that.

Chairman GONZALEZ. Tomorrow, we will have a hearing with the Freddie Mac and Fannie Mae executives. My question to you in anticipation of that is, should the mortgages originated under the program here, the housing trust, be allowed to count toward the affordable house goals of Freddie Mac and Fannie Mae?

You might not have an opinion now, but if you want to answer it in writing, that is fine. But if you have one now, I would like to hear it.

Mr. HARPS. We certainly think it should count. It would be more impetus for Fannie and Freddie to get involved in this area. We think it would serve two purposes: It would help them and it would help the whole trust.

Chairman GONZALEZ. Does any other witness have any comment?

Mr. LOZA. I think whether it gets counted or not, maybe what is just as important is it has been so difficult for low-income families to get loans originated that get bought by Fannie Mae and Freddie Mac because of the rigidity of their requirements.

And if there were some way of dealing with that rigidity that allows different ways of making families eligible for loans as part of this effort, then sure, why not? But somehow I think that that whole issue of expanding eligibility requirements to bring in more families that can't come in now maybe might be part of an agreement that would allow them to count that as part of their goal.

Chairman GONZALEZ. Well, you know, I mentioned my personal experience to lead to this point. Would that simplistic arrangement in purchasing a home be possible today?

Mr. LOZA. Not with Fannie Mae.

Chairman GONZALEZ. But, you know, how do you originate today? Is it done that simple still? My impression is, without having been active there, that it wouldn't be possible, because you have your basket of mortgages that are going to be bestowed.

Mr. Harps.

Mr. HARPS. I don't really know.

Chairman GONZALEZ. Well, you know, to get to that secondary mortgage market, you are going to have to have your basket of mortgages, and that is where, I believe, the processes have been, as Mr. Loza says, sort of petrified. But I don't know. I mean, I just have often wondered about it.

Well, ladies and gentlemen, unless you have a further comment or question, I apologize for keeping you this long.

Yes, Mr. Irvine.

Mr. IRVINE. Mr. Chairman, as a small builder, the real gem of this program is not just jobs and is not just helping some families. It is helping all of those unmet needs that are out there. By instituting a program such as this, and if dollars were in fact appro-

priated for it, it would add so significantly to the capacity, it would energize privates, not profits, publics, public organizations to in fact address these needs better. And that energy would be able to lever other innovative ideas to address those unmet needs that are out there.

The kinds of programs that I alluded to in my testimony, what we in fact have done in partnership with Linn and Benton Counties in Oregon, we addressed only 28 counties where we identified a need of almost 1,500. And it was tough pressing forward for 28 families, but we did it. If we knew there were other programs out there that could lever and help address those 1,500 unmet needs, you would energize the populations of those communities so that they would start saying it is possible to meet the homeownership needs of America, and help those families that need homes, that desire to move from renter households into homeownership households to a can-do proposition.

It is phenomenal to see the number of families that you meet out there that are in the 80 to 85 percent income range that believe they will never own their own home. They desire it, they want to, but they believe it will never occur.

And this trust will in fact increase the capacity to help and give the spirit to communities and States and municipalities, the private sector, nonprofits as well, in finding other alternatives. So I think that is the real gem that you have created here, Mr. Chairman.

Chairman GONZALEZ. Well, thank you very much, Mr. Irvine. That is most inspiring and encouraging. And you have eloquently stated the motivating force behind it. H.R. 7 expands it, because we were going to add to those targeted monies for infrastructure. You don't build a house up there by itself. You have to have water and you have to have streets which is why the Community Development Block Grant approach was intended to be used in this program. The Department wouldn't have to set up more bureaucratic systems, because a system is already there.

The reason the league endorsed it along with the mayors and the Governors, was that every community, rural and urban, has outlined needs under the CDBG Program, but no money. In some cases they have the structure, and they can start up in 30 days, in some cases a little bit longer.

So that is the hope, that is the promise. And this time, though, we may be calling on you to help us lobby our leadership here. We are not going to let go of this. We intend to push. I think if we had been able to do it last year, of course, it was an election year. If we could have had all of these associations really hitting our leadership and made them see that it was more than just one committee's or chairman's idea, we might have had some modicum of success.

I think now time is wasting and we have really got to press on, but you have hit the nail on the head. It is exactly what we have seen in communities.

I will wind up by saying that in pursuit of that legislation, in 1992, we started out last year, by going around the country. We started in Bridgeport, Connecticut, on January 7, then we went to South Carolina, on the border with North Carolina. That is a mix-

ture there, rural and urban, but they have just as serious economic conditions with unemployment and so forth. The textile factories have been going out in that area.

Then we went to Baltimore, and we went to an area there that was very disturbing. Then we went to Cleveland, and we had excellent all-day testimony. Cleveland had lost 33 percent of its manufacturing production, because it had gone across the border to the maquiladoras.

Then we went to L.A., and we had our hearing right on February 10. The only building we could really have had a hearing, was, incidentally, the center of the rioting zone 5 weeks later. We were so disturbed by the evidence we got in that all-day hearing in L.A. that I came back, abbreviated the rest of the trips—we were going to Detroit and Philadelphia—and wrote an interim report, addressed it to the Speaker and said, look, we better get going on this. Of course, I am sorry to say I still haven't had an acknowledgment to the special report.

But the report is there. What happened 5 weeks later, as tragic as that was, was so demoralizing, because it was obvious we were hearing from the people that are there at the cutting edge, like you, the rest of you.

So anyway, thank you very much. We have kept you here until almost past the lunch hour, but at least before 1 p.m. I really appreciate your patience and your great help to this subcommittee. Thank you very much.

The subcommittee will stand adjourned until tomorrow morning at 10 in this hearing room.

[Whereupon, at 12:50 p.m., the hearing was adjourned, to reconvene at 10 a.m., on Friday, November 19, 1993.]

APPENDIX

November 18, 1993

HEARING ON
FEDERAL ASSISTANCE FOR SINGLE FAMILY HOMEOWNERSHIP
OPENING STATEMENT
CHAIRMAN HENRY B. GONZALEZ
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
NOVEMBER 18, 1993

TODAY THE SUBCOMMITTEE WILL ADDRESS THE NEED TO PROVIDE FEDERAL ASSISTANCE TO INCREASE SINGLE FAMILY HOMEOWNERSHIP BY REAUTHORIZING AND FUNDING THE NATIONAL HOMEOWNERSHIP TRUST. THE TRUST IS DESPERATELY NEEDED IN ORDER TO ENABLE FIRST-TIME HOMEBUYERS ACHIEVE HOMEOWNERSHIP.

THE COUNTRY HAS EXPERIENCED AN INCREASE IN HOMEOWNERSHIP EVERY DECADE SINCE THE END OF WORLD WAR II; HOWEVER, FROM 1980 TO 1990, HOMEOWNERSHIP DECLINED BY .24%. THE DECADE OF THE EIGHTIES WAS INDEED ABYSMAL FOR HOMEOWNERSHIP. IN 48 STATES HOMEOWNERSHIP FELL AMONG HOUSEHOLDS HEADED BY PEOPLE OF 25 TO 34 YEARS OLD FROM 1980 TO 1990, AND HOMEOWNERSHIP AMONGST THOSE AGE 34 TO 39 FELL FROM 61% IN 1980 TO 50% IN 1990.

THOSE STATISTICS CONFIRM MY WORST FEAR THAT THE LAST TWELVE YEARS OF LITTLE OR NO INVESTMENT IN HOUSING HAS RESULTED IN LESS AFFORDABLE HOUSING, HIGHER RENTS AND FEWER ELIGIBLE FIRST TIME HOME BUYERS. I BELIEVE THAT THIS CLEARLY INDICATES THAT CONGRESS AND THE CLINTON ADMINISTRATION MUST CONFRONT THE PROBLEM OF DECREASING HOMEOWNERSHIP AND CONSIDER DRASTICALLY INCREASING THE AMOUNT OF FUNDS ALLOTTED TO OUR HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS.

ONE SUCH PROGRAM THAT DESERVES FUNDING IS THE NATIONAL

HOMEOWNERSHIP TRUST WHICH I ESTABLISHED IN THE 1990 CRANSTON-GONZALEZ NATIONAL AFFORDABLE HOUSING ACT IN ORDER TO ASSIST LOW-INCOME, FIRST-TIME HOMEBUYERS. THE TRUST PROVIDES LOW-INCOME HOMEBUYERS WITH ASSISTANCE PAYMENTS TO BUY DOWN THE INTEREST RATE BELOW SIX PERCENT, OR SUPPLEMENT THEIR DOWNPAYMENT AMOUNT AND CLOSING COSTS. WHILE THE TRUST IS IN PUBLIC LAW AND HAS BEEN CONSISTENTLY REAUTHORIZED SINCE ITS INCEPTION IN 1990, THE PROGRAM HAS NOT BEEN FUNDED AND THE REGULATIONS WERE NEVER ISSUED BY THE PREVIOUS ADMINISTRATION.

I ALSO INCLUDED THE TRUST IN H.R. 7, THE "EMERGENCY COMMUNITY DEVELOPMENT ACT OF 1993", WHICH WAS INTENDED TO SPUR ECONOMIC GROWTH AND PROVIDE HOUSING ASSISTANCE. THE TRUST, AUTHORIZED AT $500 MILLION, WAS INCLUDED IN THE STIMULUS BILL BASED ON THE PREMISE THAT AS MORE HOMES ARE PURCHASED, MORE HOMES ARE BUILT AND MORE JOBS CREATED. I INTEND TO PURSUE THE NEED FOR ECONOMIC STIMULUS WITHIN THE NEXT YEARS HOUSING REAUTHORIZATION BILL WHICH I WILL INTRODUCE EARLY NEXT YEAR.

I WELCOME ALL OF THE WITNESSES WHO HAVE KINDLY ACCEPTED MY INVITATION TO TESTIFY BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT. I LOOK FORWARD TO THE TESTIMONY OF TODAY'S WITNESSES.

11/18/93

STATEMENT OF MARGE ROUKEMA
HOUSING SUBCOMMITTEE

Mr. Chairman, I want to welcome the witnesses here today to discuss general trends in homeownership and in particular to discuss the need for the National Homeownership Trust.

Owning a home is still one of the major aspirations for all Americans.

One of my top priorities in the Congress, and on this Committee, has been to help make this dream a reality for as many families of this nation as possible.

During the last decade, high home prices and mortgage interest rates made it extremely difficult for many of our families, especially our young families and first-time homebuyers to realize this dream.

In fact, during the late 1980s, we actually saw a slight decline in homeownership which still has not been reversed.

It was in this context that you, Mr. Chairman, brought forward the idea of a new Homeownership Trust which was made part of the 1990 Housing Bill.

The idea was noble but as former President Bush said, "we had more **will** than **wallet**" and the Appropriations Committee has not seen fit to provide funds for the Trust.

But, the inability to fund the Trust has not meant that this Committee, or the Congress, has sat idly by. In fact, since 1990, we have been very active in passing initiatives designed to promote homeownership.

Since 1990, this Committee has:

* created the innovative **Home Investment Partnership** which was designed to expand housing opportunities. In fact, many States are using HOME funds to help provide downpayment assistance.

* we authorized former Secretary Kemp's **HOPE** initiative which targeted homeownership opportunities to the poor.

* we took unpopular but necessary measures to provide solvency for the FHA so it can continue to make homeownership available

* we passed the GSE regulatory bill and created an affordable housing program

* and, earlier this fall, we passed legislation which would encourage pension funds to work with HUD, lenders and the secondary market, such as FANNIE MAE, to make pension fund investment in affordable housing more attractive

In addition, the Congress has recently passed the permanent extension of the mortgage revenue bond program which helps provide homeownership opportunities through, among other things, downpayment assistance.

So, Mr. Chairman, we have been very active and successful in promoting homeownership opportunities.

And, the market seems to be showing new signs of life.

In fact, in a report recently released by the National Realtors Association: housing starts are up 11 percent over last year; home sales are up 12 percent; and "purchasing power for first-time and repeat homebuyers has climbed to the highest level in 20 years."

Now, while the news is good more must be done because homeownership is still out of reach for many Americans.

However, in today's market, high interest rates and home prices, and to a lesser degree, downpayment requirements, would no longer seem to constitute the major impediments to homeownership which could justify shifting scarce housing resources to the Homeownership Trust.

In conclusion, I want to make one other point.

In a recent speech on homeownership to the American Realtors Association, HUD Secretary Cisneros outlined a "comprehensive homeownership strategy for America".

And, while I applaud the Secretary for his commitment, I was disappointed with his priorities and for the glaring omissions in his strategy.

First, I was disappointed that the Secretary emphasized an expansion of the FHA program through increases in loan limits and programs such as no downpayments. The Secretary seems to forget that the FHA MMI fund is still insolvent and that FHA is in violation of the law in that it has failed to reach the capital levels set by the Congress.

Despite its good work, it makes little sense to further expose the FHA to more liability until it meets its capital. We require this of our banks and the FHA should be no exception.

Second, the Secretary failed to include the HOME program in his strategy. This federal/state partnership was the centerpiece of the 1990 Housing Act and must be part of any future housing strategy or this Member will not support that strategy.

Finally, the Secretary failed to commit himself to protecting the mortgage interest deduction which has served as one of the cornerstones of our national housing policy for most of this century.

It is clear that this one tax provision has been responsible for the transformation of this nation from an ill-housed to the best-housed nation in the world.

No single event could reverse the gains in homeowenrship we have made

or which would serve to deny the American Dream to millions of future families than the loss of the mortgage interest deduction.

The omission of this critical element should be of great concern to many, including the Homebuilders and the Realtors.

Mr. Chairman, I look forward to our work ahead and welcome the comments of the witnesses.

CAROLYN B. MALONEY
14TH DISTRICT, NEW YORK

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

COMMITTEE ON GOVERNMENT OPERATIONS

CONGRESSIONAL CAUCUS ON WOMEN'S ISSUES EXECUTIVE COMMITTEE

CONGRESSIONAL ARTS CAUCUS EXECUTIVE COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515-3214

WASHINGTON OFFICE
1504 LONGWORTH BUILDING
WASHINGTON, DC 20515-3214
(202) 225-7944

DISTRICT OFFICES
950 THIRD AVENUE
19TH FLOOR
NEW YORK, NY 10022
(212) 832-6531

28-11 ASTORIA BLVD
ASTORIA, NY 11102
(718) 932-1804

819 LORIMER STREET
BROOKLYN, NY 11211
(718) 349-1280

OPENING STATEMENT
Subcommittee on Housing & Community Development

Hearing on Federal Assistance for Single-Family Ownership
November 18, 1993

Thank you Mr. Chairman. I appreciate your scheduling this hearing on such an important matter. While many other issues grab the headlines daily, I think that the Federal Government has few responsibilities as important as helping Americans obtain decent affordable housing. Without a home to live in, the most basic rights of men and women -- life, liberty and the pursuit of happiness -- are impossible to achieve.

However, one trend that I've noticed in my first year here is that many Federal agencies treat horizontal homes differently from vertical ones. The co-op or condo purchased for a single family in a 40-story building in New York City or Chicago is no different than the single family home purchased in the suburbs or in rural areas of Vermont.

A home is a home, and one shouldn't be punished for living vertically instead of horizontally.

I hope that in the second session of this Congress, this Subcommittee will be able to explore the practices of all agencies in treatment of residential co-ops and condominiums versus more traditional-looking single family homes.

Again, my thanks to Chairman Gonzalez for scheduling this important hearing.

C. B. Maloney

PRINTED ON RECYCLED PAPER

Testimony before the
House Subcommittee on Housing and Community Development

November 18, 1993

Richard K. Green
Assistant Professor
Graduate School of Business
University of Wisconsin-Madison

Thank you for asking me to testify today. I will be discussing three issues of relevance to the National Homeownership Trust Demonstration Program: current housing affordability conditions, trends in tenure choice (i.e., the household's decision to own or rent) within certain household types, and some of the social impacts of tenure.

Measures of housing affordability can tell us whether and how households are limited in their tenure choice decisions. Trends in tenure choice can, to some degree, tell us the effects of these limitations. Measures of social impacts will tell us whether the tenure choice decision is really an important public policy matter. While it might seem somewhat heretical even to raise this last point, my purpose for doing so will become clear later in my testimony.

In my remarks today, I will be referring to some of my work with my colleague Stephen Malpezzi of the University of Wisconsin, to some of my work with Michelle White of the University of Michigan, and to the recent work of other scholars whom I will cite within my remarks. At the same time, I would like to state that my opinions are my own, and do not necessarily reflect the views of my colleagues or my institution.

Housing Affordability

Housing advocates, national and local media, and some scholars, such as William Apgar of Harvard University, maintain that the United States has a long-term decline in affordable housing. Specifically, they note that young renter households are spending a greater portion of income on housing than they did 10 and 20 years ago.

At the same time, however, the National Association of REALTORS housing affordability index -- perhaps the most frequently cited indicator of the ability of a "typical" family to own a home -- is now at its highest level in 15 years. In fact, the NAR index indicates that a median income family of four can now afford 33.1 percent more than the median price of a house in the United States.

The question remains, then, whether we can make a broad

statement about the trajectory of housing affordability in the United States. For us to decide whether this is possible, we must investigate a broad combination of issues. For example, it is probably no longer appropriate to focus on the family of four as the "typical" family: the percentage of households headed by married couples, both with and without children, has dropped to slightly over 55 percent. I believe it is important, therefore, to also focus on affordability conditions for households with children headed by an unmarried parent.

Moreover, when determining the affordability of homeownership, we should not focus only on principal and interest payments: we must also consider property taxes and down-payment requirements. In fact, monthly principal and interest payments are decreasing as impediments to homeownership, and are of course the reason why the NAR Housing Affordability Index has improved so. But while falling interest rates alleviate the burden imposed by principal and interest payments, they do nothing to relieve the down-payment burden. I will argue that the severity of the down-payment burden is at least in part a function of the affordability of rental housing. As a result, we must also investigate rent-to-income ratios.

In our consideration of housing affordability, we would probably be mistaken to focus on median incomes and prices. As we shall see, median income families, and even median income renters, in the United States generally do not face severe housing affordability problems (places like California and New York City, of course, are exceptions). I would therefore like to suggest that we look at the affordability conditions faced by those at the lowest quartile of the income distribution. We should also focus on incomes of renter households, because those who are already owners have, by definition, overcome the barriers to homeownership.

When investigating the affordability of homeownership, we should not focus on the median priced home: after all, the typical first-time homebuyer likely does not purchase a home priced at the fiftieth percentile of those sold. I will therefore investigate house prices at the lowest quartile.

Finally, we will investigate a key component of the ability to accumulate funds for a down-payment: contract rent to income ratios. My strategy for doing so will not be to look at households' actual rent to income ratios, but the amount renter families at the lowest income quartile would spend if they rented housing at the lowest rental quartile. This strategy in effect matches up the lowest priced housing with the lowest income households. I look at affordability from this perspective, because I do not wish to assert the existence of an affordability crisis if households have the opportunity to spend a small fraction of their incomes on housing, but instead choose to spend a larger fraction. Put another way, if we find that under this "matching" scheme that

low income households are still forced to spend a substantial amount of their incomes on housing, then we can be sure that we truly do have a housing affordability problem.

The source of my data on the affordability of housing is tabulations I have performed using the Public Use Micro Sample of the 1990 census. I used the full sample, which constitutes five percent of the U.S. Population, for every state except California, for which I had to draw a smaller sample because of the computational resources currently available to me.

My tabulations produced what is, in my view, both not-so-bad news and bad news. The not-so-bad news is that for renter households that have the median income for renter households, housing affordability conditions appear to be reasonably good in most places. One yardstick of housing affordability is the rent-to income ratio. Policymakers have generally set the acceptable amount for households to pay on rent at 30 percent of gross income. While whether this number always makes sense is arguable, I will accept it as a given here.

As figure 1 shows, households with the median rental income must in almost all cases spend less than 30 percent of their incomes on the median priced rental unit in their states. The reason I give a range of rent-to-income ratios for each state is that the census reports rents in ranges (i.e., $250-$275 per month). Thus the bottom of the line for each state represents the rent-to-income ratio at the lower end of the range, and the top of the line represents the upper end.

While rental prices are generally reasonable for renters at the median income levels for renters, I should note that my matching scheme will tend to understate affordability problems. Moreover, my definition of rent is contract rent, which sometimes covers utilities and other expenses, and sometimes does not. Again, the reason for this is so that I can be sure I am correct when I do assert the existence of an affordability problem. Thus it is likely that there are median income renters in the states toward the right side of the graph that must spend more than 30 percent of their incomes of rent. Nevertheless, overall conditions for these renters could not be characterized as horrible.

We may say virtually the same thing about the principal, interest, and property tax barrier to homeownership for median income renters. In all but the states of California, Connecticut, Hawaii, Maryland, New Hampshire, and Rhode Island, these households could under Fannie Mae and Freddie Mac Guidelines afford to make the principal, interest, and property tax payments on a home priced at the 25th percentile. I base my calculations on a 90 percent loan-to-value ratio 30 year fixed rate mortgage with an interest rate of 7.5 percent. Because the rental burden faced by many of these household is generally not particularly severe, they should

be able to accumulate funds for downpayments. One could therefore argue that the best way to advance homeownership among this income class is with policies to encourage the savings behavior required for the accumulation of a downpayment.

When we turn to households further down the income spectrum, however, a different picture emerges. I have three exhibits to demonstrate the housing affordability problems facing households at the lowest quartile of the income distribution among renters. Please turn to figure 2, the graph of rent-to-income ratios. The graph has ratios of rents at the 25th percentile to renter incomes at the 25th percentile for each state. I once again have minimum possible and maximum possible ratios.

Note that in a minimum of 17 states, and in as many as 29 states, a renter at the 25th percentile of income must pay more than 30 percent of income to obtain rental housing at the 25th percentile of price. This means that even if housing were perfectly matched -- that is, even is the lowest income household took the least expensive rental unit, the second lowest income household took the second least expensive unit, and so on -- some households in these 17 to 29 states would be required to spend more than 30 percent of income on housing.

Of course, household incomes and rents are never so perfectly matched, so we know rental affordability conditions for the lowest quartile of the renter income distribution are even worse than figure 2 suggests. We know that high rent-to-income ratios reduce living standards in general. We also know that high rent-to-income ratios make it extremely difficult to save.

Yet save is what households must do if they hope to eventually become homeowners. How much these households must save is made clear by figure 3, which gives house price to income ratios by state. In at least 32 states, prices of houses at the 25th percentile exceed the incomes of the relatively low-income renters we have been discussing by a ratio of four to one. A family generally needs to accumulate total funds for down-payments and closing costs equal to ten percent of the price of the house it wishes to purchase (although the FHA program allows for less). Therefore, a family facing a four-to-one house price to income ratio must save an amount equal to forty percent of its annual income to purchase a house.

Finally, even if a family in the bottom quartile could somehow accumulate funds for a downpayment, principal, interest, and tax payments loom as an impediment. Using the same mortgage assumptions I used earlier, we find in figure 4 that in only seven states can we be sure that such families could meet Fannie Mae/Freddie Mac underwriting requirements to obtain a house at the bottom fourth of the income distribution.

To finish my discussion of affordability today, I'd like the subcommittee to know that the renter at the bottom quartile of the overall renter income distribution by no means faces the most severe housing affordability conditions. Conditions for households headed by single mothers with children are even worse. I would be happy to share my data about this group with the sub-committee and its staff at any time.

Trends in Tenure Choice

Everyone with an interest in housing knows that the percentage of households in the United States that owned their own homes fell from 1980 to 1990. Although the actual decline was quite small (0.24 percent), the fact that the homeowning rate fell at all was to many worrisome. After all, the United States had seen increases in its homeowning rate during every decade from the end of World War II through 1980.

But it remains open to question as to whether the decline in homeowning should, in fact, be a source of worry. One could try to explain away the decline by noting that the changing demographic structure of the country might have a lot to do with why the homeownership rate declined. As I noted before, the percentage of households headed by married couples has been declining. Households headed by singles are, all else being equal, less likely than households headed by married couples to own their own homes. We may infer some reasons for this; an important one is likely that singles tend to be more mobile than married couples, and therefore are less likely to want to be tied down in their tenure decision. To the extent people are choosing not to become homeowners, the declining homeownership rate should perhaps not be a cause of great concern.

Our affordability data give some credence to this view; renters at the median income among their tenure group appear to have reasonably good housing opportunities in general, and reasonably good homeownership opportunities in particular. On the other hand, renter households at lower income levels seem to be very far removed from the possibility of owning their own homes.

Moreover, a group of scholars at the University of Southern California, which includes Dowell Myers, Richard Peiser, Gregory Schwann, and John Pitkin, developed evidence that suggests the small decline in the homeownership rate from 1980 to 1990 may have understated a more pronounced long-term trend. Specifically, they demonstrate that in all but two of the 50 states, the homeownership rate between 1980 and 1990 fell among households headed by those in the 25-34 year old age bracket. The size of these declines was often substantial; overall, the changes ranged from an increase of 1.4 percent in New York to a decline of 13.4 percent in North Dakota.

Again, one could try to explain the decline as a function of changing demographic patterns. People are certainly waiting longer to marry and have children. Yet tabulations I have performed show that even when one controls for household type, homeownership rates in the 25-34 year old age bracket generally declined between 1980 and 1990. In fact, as figure 5 shows, the homeownership rate for households headed by 25-34 year old married couples fell in all but seven states. Incidentally, we should probably disregard the magnitude of the increase in rate in Nebraska, because my sample size for this state in 1980 was quite small.

The reason for this decline, which has occurred even within household categories, must go beyond demographics. As the Joint Center for Housing Studies' State of the Nation's Housing has documented, household incomes among renters in the 25-34 age bracket remained essentially stagnant during the 1980's. At the same time, the Joint Center shows that rents for this age group increased. This means that households in this age category face increasing difficulty in accumulating the funds necessary to make the downpayment on an owner-occupied house.

Does Homeowning Matter?

Having established that the homeowning rate among young married couples has declined almost everywhere, we might well ask whether the decline is something to worry about. At one level, we might worry that the falling homeownership rate among the young reflects declining national living standards. This point is arguable. At another level, we might worry that the decline in homeownership among the young deprives society as a whole of certain benefits.

It does seem to be something of an article of faith among Americans in general and American policymakers in particular that homeownership is desirable and should be encouraged. Alexis de Toqueville extolled the virtues of owning property. Every president from Herbert Hoover through Bill Clinton has testified to the worthiness of homeownership. These testimonies have been backed with dollars: owner-occupied housing is subsidized by exempting imputed rent from the income tax and allowing owners to deduct property taxes and mortgage interest payments from taxable income. And until recently, the FHA single-family insurance program was a de facto cross-subsidy program, because all borrowers paid the same insurance premiums, regardless of the risk they posed to lenders.

Presidents Hoover, Roosevelt, and Johnson all made statements that in effect claimed that homeowning was a means to certain policy ends: that homeowning should be encouraged because households who live in owner-occupied housing take greater responsibility for their families, their communities, and their country, and provide a better environment for their children. In

economic terms, the argument is that homeowners generate important external benefits. More recent presidents have made vaguer statements, suggesting that they believe that homeowning in and of itself has some intrinsic value for society.

In any case, most economists would likely find these claims to be dubious, because economists tend to view the tenure choice decision to be merely a financial decision with tax consequences. Indeed, several economists have argued that the nation's preoccupation with homeowning has caused the United States to overinvest in housing, and, as a consequence, to underinvest in plant and equipment.

In response to these conflicting views between policymakers and economists, Michelle White and I decided to test as directly as possible the Hoover-Roosevelt-Johnson view that homeowning by parents benefits their children by causing them to behave in socially more desirable ways than children of renters. In particular, we examined whether--controlling for other factors--children of homeowners stay in school longer, have a lower probability of being arrested, and are less likely to have children themselves while they are teenagers. We took these behaviors to be socially desirable: the first because higher educational attainment implies higher earnings, as well as other well documented external benefits, the second because crime harms others and because teenage offenders are less likely to become responsible citizens as adults, and the third because teenagers are less likely to be good parents and good providers for their children than are parents who are older.

We used four different data sets to test our hypotheses. The data sets were the Panel Survey of Income Dynamics, The Public Use Micro Sample of the 1980 Census of Population and Housing, the High School and Beyond Data Set, and the National Bureau of Economic Research Boston Youth Survey.

Our results were frankly startling to us. Virtually without exception, even after we controlled for parents' marital status, education level, race, and income, children of homeowners were more likely to graduate from high school, less likely to commit crime, and less likely to themselves have children as teenagers than children of renters. The results are especially strong for lower income households.

Table 1 demonstrates the point. Our PSID sample shows that for households with incomes of $10,000 in 1982 dollars, the stay in school rate for the children of homeowners is as much as 13 percent higher than the rate for the children of renters. I should note that differences between the stay-in-school results between homeowners and renters gradually disappears as household incomes rise. Please remember that these differentials remain after controlling for parents' marital status, parents' education

attainment, parents' work status, parents' race, and other variables.

The data from the Census suggests a difference in stay in school behaviors across a large range of incomes. For families with $10,000 incomes, again in 1982 dollars, children of homeowners are at least 14 percentage points more likely to remain in school. Note how close this is to the result we obtained from the Panel Survey of Income Dynamics. In my experience, such harmonious results across data sets are rare. But the Census gives us an even stronger result: even at the $40,000 income level, children of homeowners are at least 7 percentage points more likely than children of renters to stay in school.

The High School and Beyond data continue to confirm our results on the link between whether a household's parents own their home and whether its children graduate from high school. These data also suggest that there is a statistically significant relationship between whether a female child comes from an owner-occupied house, and whether she has a child as a teenager. I should note that while the relationship has statistical significance, the magnitude of the effect is fairly small.

Finally, our results from the Boston Youth Survey show again that children whose parents own their own homes are more likely to finish high school, and less likely to have children as teenagers, than are children whose parents rent. The results also suggest that, all else being equal, children of homeowners are less likely to have been arrested than children of renters.

We also tested our results by subjecting them to an econometric correction for a problem known as selection bias. If homeowning parents simply have a different set of unmeasurable characteristics than renting parents, our results suggesting the importance of homeowning might really be reflecting other differences in parents. However, even after we made this correction, homeowning remained a significant determinant of stay-in-school behavior.

Certainly our results do not constitute proof of the importance of homeowning; empirical results based on samples by themselves will never do so. Still, our results are quite strong, and do make a case for the importance of homeowning.

Policy Implications

I hope to have made two fundamental points today. First, America's most severe housing problems are at the lower end of the income distribution. While such a statement may seem axiomatic, the data suggest that it is particularly important to get housing assistance of all kinds distributed to the low income people included within the category of "low-to-moderate income

households."

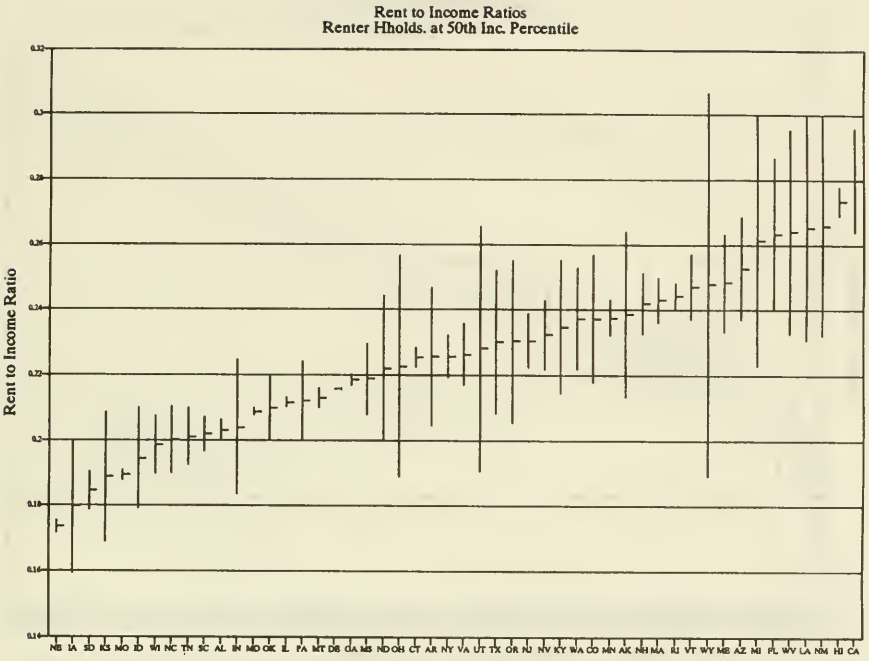
Second, it would appear that homeowning is in and of itself a worthy goal for promotion. Once again, however, I believe homeownership assistance must be targeted toward the lower end of the income distribution. The reasons for this are twofold. First, families at the lower end of the distribution need the help more. Second, the results I presented you today suggest that giving low income people the opportunity to become homeowners has more important social ramifications than making it easier for higher income people to become homeowners.

Finally, I would appreciate a short opportunity for conjecture. To the extent homeowning creates social benefits, those benefits are likely a function of the security of tenure. Put another way, it is the stake people put in and have in their houses that gives them a stake in their communities. If we believe this statement, it implies certain policies.

First, while assisting low-income families to become homeowners is a laudable and perhaps very important goal, for families to have a true stake in their home, they must put some savings into their home. The amount necessary is something that can be argued at another time. But what we can say is that without substantial rental housing assistance, lower income people will not be in a position to save anything, let alone enough to chip in with at least part of a downpayment.

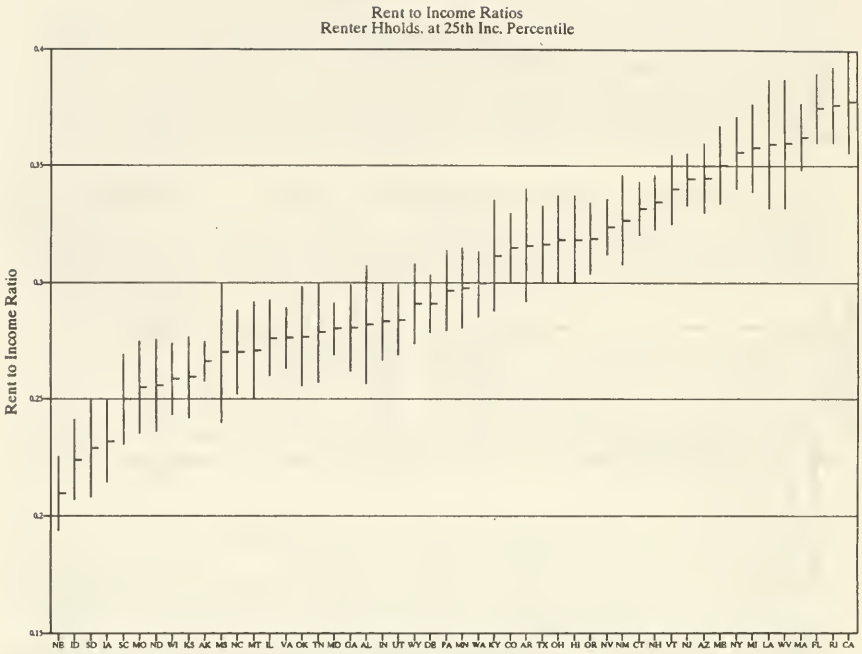
Second, for owner-occupied housing to give families a true stake in their communities, it must be housing with some potential for appreciation, or, at a minimum, housing that will likely not depreciate in value. Thus families must be allowed to choose from a wide range of housing in a wide range of neighborhoods. To assure that minority families have the opportunity to make such choices, we must have vigorous enforcement of fair housing laws.

Figure 1



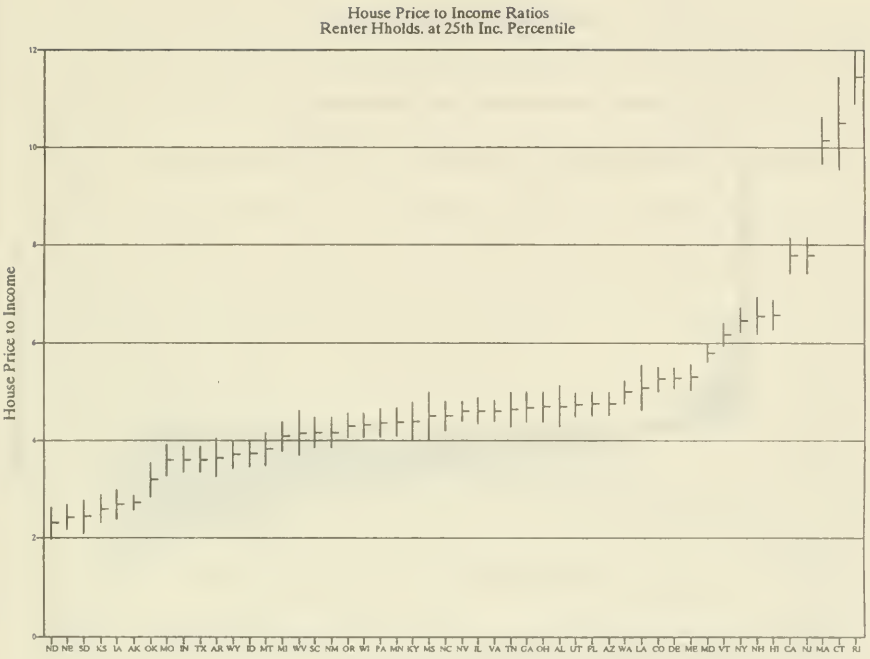
Source: Tabulations of 1990 PUMS by Richard Green

Figure 2



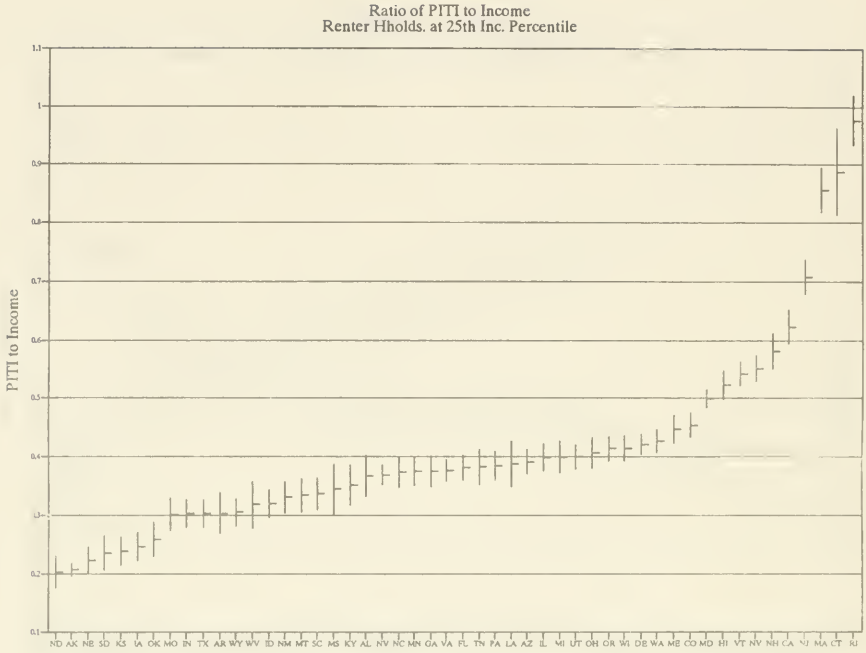
Source: Tabulations of 1990 PUMS BY Richard Green

Figure 3



Source: Tabulations of 1990 PUMS by Richard Green

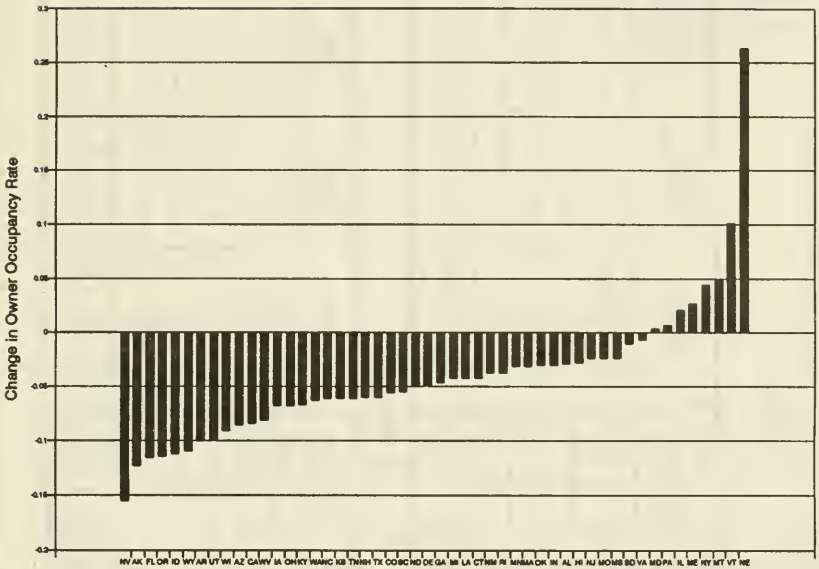
Figure 4



Source: Tabulations of 1990 PUMS by Richard Green

Figure 5

Change in Owner Occupancy Rates (80-90)
25-34 Year Old Married Couples



Source: Tabulations of 1990 PUMS by Richard Green

Table 1
Predicted Probabilities of Children of Owners vs. Renters:
Staying in School, Having a Child, and Being Arrested

Owners

	PSID (School)		PUMS (School)		HSB (School)		HSB (Child)		BYS (School)	BYS (Child)	BYS (Crime)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Sample	FS	Own	FS	Own	FS	Own	FS	Daug.			
10000	.90	.91	.90	.90							
20000	.92	.92	.93	.91							
30000	.93	.93	.96	.93							
40000	.94	.94	.97	.94							
Average	.93	.93	.95	.92	.99	.99	.09	.11	.91	.03	.03
Missing					.87	.92	.21	.30			

Renters

	PSID		PUMS		HSB (School)		HSB (Child)		BYS (School)	BYS (Child)	BYS (Crime)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Sample	FS	Rent	FS	Rent	FS	Rent	FS	Daug.			
10000	.81	.78	.76	.71							
20000	.83	.86	.81	.75							
30000	.85	.91	.86	.78							
40000	.88	.95	.90	.81							
Average	.85	.90	.77	.85	.98	.98	.10	.13	.76	.09	.08
Missing					.80	.65	.24	.34			

University of Wisconsin-Madison

Department of Real Estate and
Urban Land Economics

School of Business

Grainger Hall
975 University Avenue
Madison, Wisconsin 53706-1323
Telephone 608/262-8676
Fax 608/265-2738

14 March 1994

Representative M. Roukema
House of Representatives
Washington, DC 20515

Dear Representative Roukema:

I now have a specific answer to the question you put to me in writing.

First, you should know the homeowning rate among unmarried women with children was substantially lower in 1980 than it was for all households during that year (38 percent vs. 65 percent). Second, the number of households headed by unmarried women with children grew at a substantially faster percentage than the number of all households (29 percent vs. 18 percent).

Despite this, however, the impact of the growth of households headed by unmarried women with children on the overall homeownership rate was quite small. Holding all else constant, the increase in the percentage of households headed by single women with children would have caused a decrease in the homeownership rate by only two-tenths of a percentage point (from 65.0 percent to 64.8 percent) between 1980 and 1990. The reason the impact was small is because the percentage of households in this category remains small, if growing, at 7 percent.

I hope this answer is of assistance to you. Should you have further questions, do not hesitate to call upon me.

Sincerely,

Richard K. Green
Assistant Professor

cc. Congressman H. Gonzalez

HOUSING COUNSELING SERVICES, INC.
2430 Ontario Road, NW
Washington, DC 20009
202-667-7007

TESTIMONY BEFORE THE
Subcommittee on
HOUSING AND COMMUNITY DEVELOPMENT
on the

NATIONAL HOMEOWNERSHIP TRUST

One Hundred Third Congress

November 18, 1993

Housing Counseling Services

Testimony on the National Homeownership Trust

Housing Counseling Services (HCS) is presenting this testimony in support of Congressional backing for the re-authorization of and funding for the National Homeownership Trust or other such federal programs to assist low and moderate income first time homebuyers through downpayment and closing cost assistance. Further, through this testimony, HCS will demonstrate the importance of comprehensive housing counseling and training which results in successful and enduring homeownership opportunities for low and moderate income families. Finally, HCS will demonstrate the necessity for increased federal support of and funding for housing counseling programs.

The United States has proudly become a nation of homeowners as during the four decades preceding 1986, the U.S. homeownership rate increased as a direct result of federal housing and economic policies of the 1930's and 1940's. Since 1986, the U.S. rate of homeownership has declined as homeownership opportunities for first time home buyers became elusive due to changing interest rates, increased real estate values and other changing economic and social factors which have placed homeownership beyond the means of many young families. In order for homeownership to remain a viable option for American families, Congress must once again initiate policy and fund programs which make first time homeownership a realistic goal for motivated Americans.

The goal of this testimony is to describe the real needs of American families in their search for the "Dream of Homeownership". HCS will also describe both public and private responses to these needs such as housing counseling and training programs, private market mortgages with relaxed underwriting criteria and publicly funded downpayment assistance programs. For the sake of brevity, HCS will assume that the academics, economists and bankers will provide this committee with the statistical background in support of the benefits of homeownership opportunities in the United States as a whole. We, on the other hand, are testifying as professional housing counselors who work with real families in meeting their real housing needs.

As direct service providers, the Housing Counseling Services' staff is at the front lines of meeting low and moderate income families' housing needs on a daily basis. We see the enthusiasm and dejection first time homeowners face in their struggle for making homeownership a reality. Further, we see the nightmare that can develop for the unprepared and economically strained homeowner as they face losing their home to foreclosure. It is with this in mind that Housing Counseling Services supports funding for the National Homeownership Trust and increased federal funding for housing counseling programs in order to keep the dream of homeownership alive and enduring for all Americans.

DESCRIPTION OF HOUSING COUNSELING SERVICES, INC.

Housing Counseling Services is representative of the hundreds of housing counseling agencies throughout the nation. As a founding member of the National Federation of Housing Counselors, HCS has been a leader in the housing field since its inception in 1972. Founded as a non-profit 501(c)3 organization serving the District of Columbia Metropolitan Area, HCS provides comprehensive housing counseling, training, advocacy and housing opportunities for low and moderate income tenants, home buyers, and homeowners; helping them to achieve successful living in healthy, safe, and affordable homes. The goal of HCS is to prevent homelessness and ensure good and enduring housing opportunities by providing the skills, self-esteem and empowerment necessary within families and communities. Further, HCS works to build the individual and group capacity for economic, physical, and social development of homes, neighborhoods and communities.

Housing Counseling Services, Inc. has a long and proud history dating back to its parent organization, the Urban Rehabilitation Corporation (URC), which was organized following the race riots and subsequent destruction of District of Columbia neighborhoods in the 1960's. Founded by Father Geno Baroni in 1968, the URC sought to meet the crucial housing needs of Washington's low-income families by purchasing, rehabilitating and selling homes under the FHA Section 235 insured and subsidized housing program.

As URC clients who recently purchased homes began to face consistent problems, support counseling for home buyers became an important component of URC. URC soon realized that people needed to be trained and prepared for homeownership in order for them to become successful first time home buyers. In 1972, Housing Counseling Services, Inc. (HCS) was incorporated to continue URC's housing counseling and training component. HCS soon after expanded its goals to serve a wider population and to respond to all housing related problems.

HCS takes a long term approach to solving shelter problems. While offering emergency assistance to our clients wherever necessary, our ultimate goal is to assist low and moderate income families to secure good and affordable housing into the future. In order to ensure enduring housing, HCS works towards developing ownership opportunities as well as preparing families to develop the skills and the responsibilities that ownership requires. HCS strives to improve social, political and economic conditions by training individuals to take control of their own lives and environments and by boosting self-esteem.

HCS believes in a bottom-up approach to community services and believes that by training and educating our clients, they will be better equipped to gain control over their <u>own</u> lives and environments. In addition to individual counseling, HCS provides a wide variety of training courses and workshops on all housing consumer issues. Government officials, lenders, and policy makers have found these training courses vital in generating successful housing tenure and housing programs and have included housing training requirements in several first time home buyer programs. Graduation from HCS training courses are required of District of Columbia Homesteaders and borrowers through the GE Community Homebuyers mortgage program offered by many private lenders.

HCS's ten week homeownership training courses for first time homebuyers includes homework assignments, role playing exercises and lectures by professionals in the housing field such as realtors, lenders, insurance agents, utility officials and contractors. Our 100 page Homeownership Manual includes materials that first time homebuyers have found essential in their home purchase process and in future homeownership. While we are compassionate counselors, we are likewise stern teachers and do not graduate trainees who are not fully prepared for the rigors of homeownership. No home buyer who has graduated from an HCS training course has faced mortgage foreclosure to date.

HCS takes a holistic approach to family needs for shelter, recognizing that without social and technical assistance, client training and skills enhancement, consistency of service, an understanding of cause and effect, and client follow-up, counseling intervention will not remedy individual housing problems or the housing crisis as a whole. Most importantly, HCS believes that individuals need to take responsibility for meeting their own housing needs and should work towards developing the skills and self-confidence necessary for successful living.

Through our comprehensive delivery of housing services, HCS strives to:

- prevent the stress on family and community structures caused by overpriced, unsafe and overcrowded housing and the lack of housing opportunities;

- prevent individual homelessness;

- strengthen the abilities and self-esteem of individuals and communities in order to prevent housing problems from recurring;
- empower individuals, families and communities to take control of housing and community development opportunities;
- develop affordable housing opportunities within communities; and
- ensure that families and communities secure access to social, economic and other services and programs in order to prevent deterioration and improve family and community structures.

Direct counseling by HCS has resulted in thousands of families purchasing their first homes, hundreds of rental and mortgage delinquencies being brought current, hundreds of families bringing their homes up to housing code, thousands of families spared the horrors of homelessness and most importantly, training thousands of individuals and families in preventing recurring problems and in resolving problems once they arise. HCS had a success rate of 78% of the client cases closed in 1992.

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HOUSING COUNSELING SERVICES, INC.

RESULTS OF COMPREHENSIVE HOUSING COUNSELING*

For Cases Completed During the Period

October 1, 1991 to September 30, 1992**

TYPE OF CASE	TOTAL CASES CLOSED	PROBLEM SOLVED	PROBLEM NOT SOLVED	NO CLIENT FOLLOW THROUGH	PERCENT OF TOTAL CLOSED CASES	SUCCESS RATE
Pre-Purchase Assistance	551	551	-	-	30.4%	100%
Purchased Home	81	81	-	-	4.5%	100%
Mortgage Delinquency	316	247	22	47	17.4%	78%
Post Occupancy Problem	43	31	1	11	2.4%	72%
Tenant Assistance	186	158	-	28	8.7%	85%
Locate Housing	117	117	-	-	6.0%	100%
Landlord/Tenant Problem	74	59	3	12	4.1%	80%
Rental Delinquency	67	47	5	15	3.7%	70%
Social Service Problem	9	9	-	-	.5%	100%
Home Sharing Program:	307	52	128	127	17.0%	20%
(Matched)	(52)	(52)	-	-	(2.9%)	
(Not Matchable)	(255)	-	(128)	(127)	(14.1%)	
Other Problem	60	58	1	3	3.3%	93%
TOTALS	1,811	1,408	160	243	100%	78%

SUMMARY STATISTICS

Problem Solved	1,408	OVERALL SUCCESS RATE:	78%
Problem Not Solved	160		9%
No Client Follow Through	243		13%
TOTALS	1,811		100%

* Only clients receiving ongoing comprehensive counseling are included. Short term clients not reported in above figures
** Clients whose ongoing cases have not been concluded during the report period are not reported in above figures.

COUNSELING FOR FIRST TIME HOMEBUYERS

Homeownership remains a central theme of the "American Dream." The role of the housing counselor is to assist his/her clients to make this dream become a lasting reality. Housing counselors assist families to develop the necessary skills required of home purchase and to cultivate an understanding of the responsibilities of homeownership. After all, homeownership skills are not taught in public schools, universities or within many families. Homeownership skills are not innate nor are they common sense, but rather, they are skills which must be taught and fully understood in order for clients to be successful. This is where the housing counselor is vital.

Counseling must be comprehensive in approach in order to be successful. HCS staff has found, for instance, that a family which is given the opportunity to own a home, may be unable to retain it if they have an unstable family life, their finances are not in good order or if they don't have a good maintenance plan and budget.

Comprehensive housing counseling entails:

- determining the root causes of a client's problem;
- detailing options available to the client;
- assisting the client to make an appropriate decision to resolve his/her problems;
- providing the client with the skills necessary to resolve the problem;
- assisting the client in locating resources to resolve the problem;
- negotiating on behalf of the client; and
- assisting client throughout the problem resolution process.

In order to resolve a client's problem, the housing counselor may provide:

- budgeting assistance;
- credit counseling;
- referrals to employment, drug, medical or entitlement programs;
- assistance in applying for public and private housing programs; and
- negotiation assistance with mortgage companies, landlords and contractors.

Housing counselors have learned that housing problems often stem from other social, economic and physical problems which can have grave effects on housing situations.

HCS has found that the greatest barriers to homeownership for first time home buyers are access to adequate savings for down payment and closing costs and poor credit histories which make our clients "unbankable". Housing counselors assist clients in knocking down these barriers by:

- providing training and counseling programs which fully describe the home purchase process including: housing search, house selection, home inspection, loan application, underwriting criteria, affordability index, closing process and insurance requirements;
- ensuring that families understand the new responsibilities homeownership requires of them;
- assisting clients to develop ongoing skills which will prevent future delinquencies and foreclosure;
- assisting clients to develop and adhere to strict budgets which allow for savings towards home purchase expenses;
- developing home buyers clubs which rely upon group process and support to prepare for homeownership;
- assisting clients to repair poor credit and establish new credit in order to reach standard mortgage lending criteria;
- reviewing contracts, loan applications, inspection reports and other items to explain any concerns or questions our clients have;
- assisting clients in applying for public and private programs for first time home buyers; and
- encouraging first time home buyers to become involved in their new neighborhoods in order to improve overall community conditions.

While poor credit practices may be resolved through counseling, the problem of inadequate savings available for home purchase often requires public subsidy for resolution. More than 80% of HCS pre-purchase clients have credit problems when they first come in for counseling. Housing counselors carefully review the credit reports of all clients in order to explain potential lender concerns and to assist the client in resolving past problems. The counselor will assist the client in developing a payment plan to pay off high consumer debt, eliminate use of credit cards for unnecessary purchases, return unnecessary credit cards to the issuer, submit consumer explanations to credit bureaus on accounts indicating poor payment history and refute credit reports which show dated or inaccurate data. A client may take up to one year to prepare their credit record for home purchase. Further, counselors explain how to maintain good credit and use credit wisely in the future.

Housing counselors also assist clients in preparing detailed household budgets which allow families to meet all obligations while saving for future purchases (and allow for an emergency cushion of three months of living expenses.) With the limited income of many of our clients, families capable of saving $50 per month will require more than 10 years to save towards the purchase of a typical home. It is difficult to motivate a family to save and remain motivated home buyers based upon this projected time frame to purchase, and it is unlikely that many of these clients will be successful buyers. It is for this reason that monetary assistance is necessary to allow the typical family to purchase a home.

THE PRE-PURCHASE COUNSELING PROCESS

HCS sees more than 30 clients each week wishing to purchase their first home. These clients represent low and moderate income families of all races, household size and household composition. With the increasing number of single parent households HCS assists, clients successful at home purchase have been further reduced. While the recent lower interest rates have made housing more affordable to the typical family, down payment requirements and closing costs (which are not affected by this reduction) remain the greatest barrier to affordable homeownership.

Ms. Wilson (name has been changed) came to HCS in 1990 for assistance in buying her first home. Ms. Wilson is the mother of two children under the age of ten. Receiving public assistance for more than five years, Ms. Wilson attended a job training program in 1987 and has been employed as a claims processor since that same year. Ms. Wilson was earning $25,000 when she contacted our agency and had saved $2,000 towards home purchase. Her credit report indicated several late payments and one lien. She had consumer debt totalling $3,500 on which she was currently making minimum payments.

Ms. Wilson received comprehensive pre-purchase counseling including the purchase process, family budgeting, and credit counseling. A household budget was developed allowing Ms. Jones to payoff her entire consumer debt in 12 months while maintaining monthly savings of $40. The housing counselor assisted Ms. Wilson in preparing a consumer statement to be added to her credit report which explained that past credit problems were from a period when she relied upon public assistance for income. Ms. Jones was referred to several utility programs which reduced her heat and electric bills by nearly $25 each month. Upon reviewing her telephone bill, the counselor suggested she eliminate various extra services which resulted in monthly savings of $12 per month. As Ms. Wilson indicated that she would like to purchase a home within the coming year, the counselor helped her further reduce her budgeted expenses in order to meet this goal. Cable T.V. was eliminated, shopping during sale periods was discussed and the need to increase her income was explained. Ms. Wilson stayed in monthly contact with the housing counselor to review her progress in meeting payments and maintaining her budget. During that time, Ms. Wilson also attended a Pre-Purchase Workshop presented by Housing Counseling Services.

After one year of working with the housing counselor, Ms. Wilson was eligible to apply for the District of Columbia Home Purchase Assistance Program (HPAP). HPAP assists first time home buyers in the District of Columbia with up to $25,000 for downpayment and closing cost assistance. The HPAP assistance becomes a second trust on the property and, depending upon the income of the borrower, requires repayment upon sale of the property with no interest for very low income borrowers and with monthly payments of $86 at 3% interest for moderate income borrowers. HPAP applicants are required to receive housing counseling and training and receive ongoing assistance through organizations such as HCS. One of the most popular District programs, HPAP provided downpayment assistance to more than 360 families during fiscal year 1993 alone, and since its inception in 1976, more than 6,000 families have received HPAP loans.

The HCS counselor completed the HPAP application and verifications for Ms. Wilson. Based upon her income, debt and savings, Ms. Wilson was approved to purchase a property valued at up to $106,000 with HPAP providing a $25,000 second trust. The HPAP program required that Ms. Wilson have at least $2,500 in savings.

Within three months, Ms. Wilson had placed a contract on a property for $100,000. She met with her HCS counselor to review the contract and go over the steps necessary to complete home purchase. Ms. Wilson received a first trust from the D.C. Housing Finance Agency through a mortgage bond issue at an interest rate which was below the private market. Ms. Jones moved into her three bedroom home 15 months after first meeting with an HCS counselor. Her monthly mortgage payments of $700 were fifty dollars less than her most recent rent. She became eligible for a five year property tax exemption for low income home buyers which further reduced her monthly outlay.

In 1993, Ms. Wilson called HCS to inform her counselor that she had just been laid off from work and was expecting to miss her next monthly mortgage payment as her unemployment benefits would not start for four weeks. The counselor met with Ms. Wilson and developed a new household budget based upon her benefits. The counselor contacted the mortgage company who was willing to make a payment plan for the missed mortgage payment. Recently, Ms. Jones called to inform her counselor that she has a new job earning $32,000 and expects to remain current on all payments.

CONCLUSIONS

Even with intensive housing counseling and training, first time homebuyers oftentimes need monetary assistance to make homeownership viable. While counselors can prepare families for the rigors of homeownership, if the gap between median real estate values and median income continues to widen, and if the average American family remains unable to save the required 5% to 8% of the purchase price of a property,(the amount of money necessary to cover downpayment and closing costs and to thereby open the door to private financing,) homeownership will remain elusive.

The American family needs increased federal support of homeownership opportunities in order to reach their goal of secure housing. Further, the public needs significant federal support of housing counseling programs which are made available to tenants, home buyers and homeowners through non-profit agencies throughout America in order to prevent homelessness, increase housing opportunities and resolve small problems before they become a part of the larger national housing crisis. Housing counseling agencies exist with minimal federal financial support (HCS received only $5,000 in direct federal funding during fiscal year 1993 while solving the housing problems of more than 1400 Americans) and have been consistently shrinking due to limited public funds at the same time as the public need has increased. Programs such as the National Homeownership Trust and housing cousneling programs are a good start towards refocussing funds away from bandaid policies and into more positive and long term solutions.

Housing Counseling Services asks this subcommittee and Congress as a whole to renew your commitment to the American family by assisting them in allowing their dream of homeownership become a lasting reality by fully funding housing cousneling programs and programs to assist the first time home buyer.

HAC

Housing Assistance Council Inc. • 1025 Vermont Ave., N.W. • Suite 606 • Washington, D.C. 20005 • (202) 842-8600

Statement of Moises Loza
Housing Assistance Council

Before the Committee on Banking, Finance, and Urban Affairs,
Subcommittee on Housing and Community Development,
U. S. House of Representatives
November 18, 1993

Thank you, Mr. Chairman, for the opportunity to testify before your Subcommittee today on homeownership and the National Homeownership Trust Demonstration. I represent the Housing Assistance Council (HAC), a nonprofit group working to create more affordable housing throughout the rural United States. My testimony focuses on homeownership in rural places.

The Housing Assistance Council supports the reauthorization of the National Homeownership Trust Act and the demonstration that it would create. We also urge that appropriations be voted to fund the Act. We believe that this new tool could help supplement existing federal housing programs for low-income households. The Homeownership Trust Demonstration will help many median- or middle-income families afford a home.

There is little doubt that homeownership in our society works, economically and socially, for most people who have the opportunity to attain it. No other facet of our lives so clearly divides the "haves" in America from the "have nots." Yet these "haves" are not just the affluent; most homeowners are middle-income and sometimes even low-income households. Our challenge today is to increase opportunities for homeownership. In recent years, rates of homeownership have been declining. From 1980 to 1990, the percentage of households owning their own homes fell from 51 to 45 percent. And in 1991, only about 41 percent of renters aged 25 to 34, even at a mortgage interest rate of 8 percent, had enough income to buy a small first home.[1] The Homeownership Trust Demonstration could help slow or reverse these trends.

Recent record lows in mortgage interest rates have led many to believe that homeownership in the United States is more affordable than ever before. In fact, although houses may be cheaper now, fewer people can afford to buy them because of weak income growth and a recessionary economy. Thus, housing affordability remains a severe problem throughout the country. In this kind of housing climate, the National Homeownership Trust Demonstration can help meet the need for decent and affordable housing. As a backer of affordable housing everywhere, but especially as a proponent of

[1] Joint Center for Housing Studies, The State of the Nation's Housing 1993, Harvard University, 1993, pp. 9, 11.

decent housing in rural areas, HAC supports the Trust Demonstration project. My testimony today will demonstrate the need that rural America has for a program like the Homeownership Trust.

My testimony covers two main topics: (1) the current state of rural housing generally and homeownership specifically and (2) the federal programs that serve low-income rural homeowners.

Rural housing and homeownership. The owner-occupied single-family home is the dominant form of housing tenure in rural and nonmetropolitan places of the United States. This is true for all income levels. The rural United States has traditionally had higher homeownership rates than urban America. According to the 1991 American Housing Survey, 81 percent of rural households and 58 percent of urban households own their own homes.[2] Unfortunately, however, these figures do not mean that housing is more affordable in rural areas.

Housing costs for both owners and renters are generally higher in metropolitan and urban areas than they are in nonmetro and rural areas. Thus a greater portion of metro/urban residents are "cost burdened," the primary measure of housing affordability. However, the difference between rural and urban cost burden rates is actually quite small. Census data reveal that there is only a 3 percent difference between the numbers of rural and urban homeowners who are cost-burdened (17 percent compared to 20 percent). There is a 6 percent difference between rural and urban renters (35 percent of rural renters versus 42 percent of urban). Data also show that the vast majority of cost-burdened rural households pay more than 35 percent of their incomes for housing, further indication that housing affordability is a severe problem in the rural United States.[3]

Housing cost burden is a particular problem for low-income people, for whom high housing costs often preclude other basic necessities such as food, clothing, and health care. Seventy-three percent of rural renter households earning less than $10,000 a year paid more than 35 percent of their income for housing in 1989, and three of every five rural renter households earning less than $20,000 a year were cost burdened. Rural low-income homeowners also have high housing cost burden rates. More than half paid over 30 percent of their income for housing-related costs in 1989.

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[2] Jan S. Tin, Housing Characteristics of Rural Households: 1991. U.S. Dept. of Hous. & Urban Devel. and U.S. Dept. of Commerce, Bureau of the Census, Curr. Hous. Repts., H121/93-5, August 1993, p. 3.

[3] Housing Assistance Council, Rural Poverty and Housing: 1990, unpublished draft, 1993.

Not only do rural households experience housing affordability problems, but they are also plagued by serious housing quality problems. Rural and urban areas experience similar rates of substandard housing (4.5 percent and 5.4 percent respectively), but they experience different types of problems. For example, according to Census data, while households in urban parts of the United States are more often overcrowded, rural households are four times more likely to lack complete plumbing. Homes with multiple housing quality problems are also disproportionately located in rural America. Of all the housing units that are both overcrowded and lacking complete plumbing, almost half are in rural areas.

In addition to the affordability and housing quality problems experienced by rural households, another problem is the growing discrepancy between urban and rural wages. Nonmetro areas appear to be recovering from the past recession slightly more quickly than metro areas, as measured by the increase in new jobs, but this may be offset by the fact that nonmetro earnings per job have fallen in the last several years at a greater rate than metro earnings. This affects the nonmetro population at low and middle incomes, placing more rural residents at an even greater disadvantage in the housing market. All these conditions indicate that the Homeownership Trust Demonstration would be very useful in rural areas.

The role of federal programs. Not only is home ownership perhaps the most important part of the American dream, but federal programs to help Americans attain it have been very successful. Often overlooked is the fact that the biggest federal housing program is the income tax deduction for mortgage interest payments and local property taxes. This subsidy makes homeownership affordable for tens of millions of homeowners at many income levels. The poor, urban and rural, would be very fortunate indeed to have such a huge subsidy for their housing needs. Often missing is help for those just above poverty.

The federal role in homeownership is pronounced in rural America, where ownership is most prevalent. In rural places, the Farmers Home Administration's Section 502 direct loan homeownership program serves as an assisted housing model. The 502 program provides mortgage financing for a more at-risk segment of the population than that contemplated through the National Homeownership Trust Demonstration. (FmHA also has a guaranteed loan 502 homeownership program serving a moderate-income population.) The Section 502 direct loan program provides this financing successfully. This fact alone should provide assurances that the demonstration can readily meet its goals. The limited amount of subsidy proposed will enable the trust fund demonstration to help families just above poverty, who fall between the reach of deeper subsidized programs, like Section 502, and the private sector. The Trust will do this at a minimal cost to the government for a median-income group.

There are similarities between the Homeownership Trust Demonstration and Section 502. The Housing Assistance Council believes these similarities make an observation of Section 502 successes germane to consideration for funding the demonstration. Both programs have a credit elsewhere component, designed to eliminate competition with the private sector.[4] Both programs provide interest subsidy, although that in Section 502 goes considerably deeper to serve a much lower-income constituency. Both have subsidy recapture mechanisms designed to prevent windfall profit at government expense. Both programs provide assistance for owner-occupied housing. The demonstration insures a very low downpayment, whereas Section 502 requires none unless a given family has cash available for that purpose.

The Section 502 program has assisted 1.8 million rural American families since its inception in 1949. Despite targeting to those with incomes below 80 and 50 percent of median, and despite the fact that recipients were not eligible for private credit, the 502 program has provided mortgage finance with a limited degree of problems or failure. Only 6.8 percent in a current portfolio of 649,500 active loans are delinquent. Only 1.6 percent are delinquent three or more months. When default and liquidation have occurred, FmHA has managed its inventory of repossessed homes successfully. The inventory is currently only 3,342 units (0.5 percent of the active portfolio). Losses from inventory sales in FY 1993 were 1.7 percent of market value. That amount was 0.02 percent of the program's outstanding principal.

The true measure of Section 502 success is in human terms. A HAC five-year study of 849 households that received Section 502 loans in 1981 provided an actual measure of program accomplishment.[5] This case study, conducted in 20 geographically dispersed FmHA offices, found evidence that the participating households experienced significant improvements in their lives. For example, income increased by 27.3 percent. At the same time, annual program subsidy from FmHA decreased by $1,332 over the five-year period. This HAC report documents the success of this program in terms of government goals and human achievement. (A summary of the report is attached to this testimony as Appendix A.)

HAC's testimony is not meant to endorse funding for the demonstration at the expense of subsidized programs which serve lower-income populations. We remain advocates for the rural poor,

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[4] "Credit elsewhere" means that a borrower, because of insufficient income, has been unable to obtain mortgage credit in the private market.

[5] Housing Assistance Council, "A Home of Our Own": The Costs and Benefits of the Rural Homeownership Program, Washington, DC, 1988.

but believe this program can close home ownership financing gaps with limited budget impact. Still we would be remiss if we somehow left an impression that HAC supports any concurrent lessening of federal housing assistance for low- and very low-income families. Also, our discussion above of the moderate-income FmHA Section 502 guaranteed loan program should not be taken as any endorsement of it at the expense of Section 502 low-income direct loans.

Conclusions. The Housing Assistance Council believes that the National Homeownership Trust Demonstration project is a viable response to the growing problem of homeownership affordability in both rural and urban America for several reasons:

* First, by providing some ownership aid to median-income households, the demonstration will supplement successful federal low-income homeownership efforts such as the FmHA Section 502 and HUD HOME programs. The Trust Demonstration is particularly well-suited to serve rural residents because, by requiring a minimal downpayment, it extends homeownership opportunity to households with an income that, while steady, is insufficient to allow for much savings.

* In addition, the Demonstration will be able to serve areas in nonmetropolitan America that are not currently served by Farmers Home's middle-income guaranteed loan program. FmHA serves communities of up to 25,000.

In summation, Mr. Chairman, let me reiterate that we support the Homeownership Trust Demonstration. It could help remove important barriers to purchase of single-family homes in rural and urban America. Thank you.

"A HOME OF OUR OWN"

The Costs and Benefits of the Rural Homeownership Program

APPENDIX A

Overview

The major federal effort to upgrade rural housing is the Section 502 Low-Income Homeownership Program administered by the Farmers Home Administration (FmHA) of the Department of Agriculture. Program funding has declined in recent years at the same time that the availability of affordable housing has declined generally for families with limited resources. The Housing Assistance Council (HAC) assessed the cost-effectiveness of the FmHA program by tracking a sample of borrower households over a five-year period. Based on its findings, HAC recommends increased support for the program. HAC also recommends several administrative improvements.

FmHA is the only federal agency now directly subsidizing home mortgages for low-income rural households unable to obtain credit elsewhere. The Section 502 Program provides long-term loans with no down payment for houses "of modest design." The subsidy is in the form of an interest "credit" under which FmHA pays the difference between the market rate and what the borrower can afford to pay for principal, interest, taxes, and insurance. The interest paid by the borrower rises or falls with household income. The program includes self-help projects in which the homeowner contributes labor to the construction of the home.

HAC tracked the experiences of a national sample of FmHA borrowers. (FmHA provided data but otherwise took no part in the study.) The sample consisted of 894 rural households who obtained subsidized mortgages under the Section 502 program in 1981, and whose income, household characteristics, and repayment performance were reviewed for the next five years. The sample included households with very low incomes and single-parent families. Initially there were 2,790 people in the households sampled, and average adjusted annual household income was $9,333. HAC's methodology involved conducting extensive interviews with borrowers and their family members as well as detailed data analysis.

FmHA-Financed Homes in Maryland

HAC's principal findings are:

- ***The FmHA homeownership program reaches the poor and near-poor.*** Two-fifths of the borrower households had incomes at or below 125% of the federal poverty threshold when the loans were made. Nearly one fifth of the households, including 28 percent of all the household members and 38 percent of all the children in the sample, had incomes below the poverty threshold.

- ***Repayment performance has been excellent, particularly among poverty-level households.*** As of 1986 (when the majority of borrowers in the sample had five years' experience with the program), most borrowers were actually ahead in their payments. Although the program serves low-income borrowers unable to obtain credit elsewhere, only 7 percent were as much as three months behind, only 5 percent had returned their homes to FmHA, and only 1.3 percent had lost their homes to foreclosure. Poverty-level households were less likely than others to be delinquent, and more likely to be ahead in payments.

- ***The subsidy required declined steadily for most borrowers,*** including single-parent households and those at the poverty level. The average annual subsidy for poverty-level households declined from about $3,100 in 1981 to $2,550 in 1986.

- ***Children are principal beneficiaries.*** The decline in the subsidy was in part a reflection of upward economic mobility, and this was most evident among young families with children. The number and percent of children who were living in poverty declined as the number and percent of those in households with incomes above 125 percent of poverty increased.

- ***The program produces both direct and indirect benefits.*** Direct benefits included improvements in the quality of shelter and growth in household savings. Indirect benefits included positive changes in family life, particularly for children. Borrowers had specific criticisms concerning various aspects of the Section 502 program but were overwhelmingly positive about their overall experience with the program.

HAC also finds that

- In many communities the program has been an important source of home financing for low-income workers, including municipal and service employees.

- A significant portion of the homeownership subsidy is recaptured by the government. When borrowers sold or refinanced their homes, value appreciation permitted them to repay 30 percent of their total subsidy, on the average.

- Many of the borrowers (13 percent) "graduated" entirely from the subsidy, and began making mortgage payments at full note interest rate.

- Borrowers, even those at poverty level, were able to build equity and to share in value appreciation. This has been especially true for participants in self-help projects.

- Rapidly increasing property taxes and insurance premiums posed particularly difficult challenges for this low-income population and may have offset, to a degree, some of the advantages of the program.

- Personal servicing by FmHA county offices has been important in preventing and resolving delinquencies. Borrowers have often been able to improve their ability to manage their household finances, especially when counseling has been available.

In summary, the Housing Assistance Council finds that the rural homeownership program represents a cost-effective strategy to provide decent shelter to low-income households and to assist them in overcoming the burden of poverty. HAC recommends that the program be given additional resources, including deferred-interest loans and increased staffing, in order to expand the availability of the program to needy rural households.

"I think it's a nice program. It helps a lot of people to get a start. These days, this is one way to help out."

ELIZABETH FURSE
1st District, Oregon

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Congress of the United States
House of Representatives
Washington, DC 20515-3701

OREGON OFFICE
Montgomery Park
2701 NW Vaughn #880
Portland, OR 97210
(503) 326-2901

WASHINGTON OFFICE
318 Cannon Building
House of Representatives
Washington, DC 20515
(202) 225-0855

QUESTIONS FROM REP. ELIZABETH FURSE

TO MR. LOZA

OF THE HOUSING ASSISTANCE COUNCIL

1. Do I understand correctly that the Farmers Home Administration and the Federal Housing Administration's Single Family program do not provide assistance to rural communities large than 10,000 in population?

2. Are there any other type of federal programs that do cover rural areas with populations greater than 10,000?

3. What role could the National Housing Trust play in rural areas?

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ANSWERS TO QUESTIONS FROM REP. ELIZABETH FURSE
TO MR. LOZA
OF THE HOUSING ASSISTANCE COUNCIL

1. Do I understand correctly that the Farmers Home Administration and the Federal Housing Administration's Single Family program do not provide assistance to rural communities larger than 10,000 in population?

Neither the Farmers Home Administration (FmHA) nor the Federal Housing Administration (FHA) programs are strictly limited to communities of 10,000. Generally, FmHA serves communities of 10,000 or less so long as they are rural in character, regardless whether they are located in a metropolitan area, and it also serves communities of up to 20,000 that are outside metropolitan statistical areas and have been determined to lack mortgage credit. In addition, FmHA funds can be used in communities of up to 25,000 that were eligible before the 1990 census but were determined by the census to be too large, so long as they are still rural in character and lack mortgage credit. The complete definition of "rural" that determines FmHA's service area is set forth in Section 520 of the Housing Act of 1949, a copy of which is attached for easy reference.

The FHA provides assistance nationwide regardless of community size, although it does have at least one program targeted to rural areas: the Section 203(i) Home Mortgage Insurance Program for Outlying Area Properties. There is no programmatic definition of "outlying areas"; FHA determines whether a property is located in such an area based on the impracticability of conformity to urban mortgage insurance requirements, rather than on the size of the community in which the insured home is located.

2. Are there any other type of federal programs that do cover rural areas with populations greater than 10,000?

Most federal housing programs do cover rural areas with populations greater than 10,000. Programs of the Department of Housing and Urban Development, including the Federal Housing Administration, apply nationwide in communities of all sizes. As a practical matter, however, HUD and FHA programs do not work well in small cities such as those of 30,000 or even 40,000 population. While the Farmers Home Administration is prohibited from serving cities of that size, HUD generally has not served them.

3. What role could the National Housing Trust play in rural areas?

The homeownership trust could reach residents of geographic areas presently not effectively served by any existing federal homeownership assistance program, and could assist rural residents whose incomes are too high to qualify for Farmers Home Administration loans but too low to enable them to obtain private mortgage financing. As I mentioned in my testimony, homeownership is even more popular in rural areas than in large cities, but not necessarily more affordable for those with moderate incomes.

S.E. Office
Atlanta, GA
(404) 892-4824

S.W. Office
Albuquerque, NM
(505) 883-1003

Western Office
Mill Valley, CA
(415) 381-1706

SUMS EXCESS TO THE NEEDS OF THE RURAL HOUSING INSURANCE FUND

SEC. 519. Any sums in the Rural Housing Insurance Fund which the Secretary determines are in excess of amounts needed to meet the obligations and carry out the purposes of such Fund shall be returned to miscellaneous receipts of the Treasury. [42 U.S.C. 1489]

DEFINITION OF RURAL AREA

SEC. 520. As used in this title, the terms "rural" and "rural area" mean any open country, or any place, town, village, or city which is not (except in the cases of Pajaro, in the State of California, and Guadalupe, in the State of Arizona) part of or associated with an urban area and which (1) has a population not in excess of 2,500 inhabitants, or (2) has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character, or (3) has a population in excess of 10,000 but not in excess of 20,000, and (A) is not contained within a standard metropolitan statistical area, and (B) has a serious lack of mortgage credit for lower and moderate-income families, as determined by the Secretary and the Secretary of Housing and Urban Development. For purposes of this title, any area classifed as "rural" or a "rural area" prior to October 1, 1990, and determined not to be "rural" or a "rural area" as a result of data received from or after the 1990 decennial census shall continue to be so classified until the receipt of data from the decennial census in the year 2000, if such area has a population in excess of 10,000 but not in excess of 25,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate-income families.[1] [42 U.S.C. 1490]

LOANS TO PROVIDE OCCUPANT-OWNED, RENTAL, AND COOPERATIVE HOUSING FOR LOW- AND MODERATE-INCOME PERSONS AND FAMILIES

SEC. 521. (a)(1)(A) Not withstanding the provisions of sections 502, 517(a) and 515, loans to persons of low or moderate income under section 502 or 517(a)(1), or 526(a), loans under section 515 or 526(c) to provide rental or cooperative housing and related facilities for persons and families of low or moderate income or elderly persons and elderly families, and loans under section 526 to provide condominium housing for persons and families of low or moderate income, shall bear interest at a rate prescribed by the Secretary at not less than a rate determined by the Secretary of the Treasury upon the request of the Secretary taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods of maturity comparable to the average maturities of such loans, adjusted to the nearest one-eighth of 1 per centum. Any loan guaranteed under this title shall bear interest at such rate as may be agreed upon by the borrower and the lender.

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[1] Section 715(a) of Pub. L. 101-625 amended the first sentence of this section to include Guadalupe, Arizona, and amended the last sentence to read as shown. Subsection (b) of such section 715 provides as follows:

"(b) APPLICABILITY.—The amendment made by this section shall apply with respect to classification of rural areas for fiscal year 1991 and any fiscal year thereafter.".

Mr. Irvine

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

before the

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

of the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

November 18, 1993

STATEMENT OF

THE NATIONAL ASSOCIATION OF HOME BUILDERS

before the

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

of the

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

NOVEMBER 18, 1993

Mr. Chairman, Mrs. Roukema, Members of the Subcommittee:

On behalf of the National Association of Home Builders' (NAHB) 165,000 member firms from across the country, I am pleased to have the opportunity this morning to comment on the National Housing Trust. My name is Jim Irvine, a home builder from Portland, Oregon. I currently serve as Vice President - Treasurer of NAHB.

Chairman Gonzalez deserves much of the credit for retaining the National Homeownership Trust Act in the Conference Agreement that became the Cranston-Gonzalez National Affordable Housing Act of 1990. In fact, the homeownership trust was one of the three pillars of that legislation – HOME, HOPE, and the National Homeownership Trust, all provisions that NAHB continues to support.

As supporters of the Trust, we share the Chairman's frustration that it has not received funding necessary to commence this worthwhile program. Consequently, we are pleased to provide the Subcommittee research analysis as well as some suggestions that we hope will be of some assistance to the Subcommittee in focusing on the 1994 reauthorization legislation. We at NAHB certainly stand ready to provide you with the best information we have as you seek ways to assist first-time home buyers.

Mr. Chairman, we applaud your continuing support for a program that would, if implemented, allow a greater number of renters achieve homeownership. We also applaud the high level of professionalism found on both the Majority and Minority staff of the

Subcommittee, and we sincerely appreciate their enthusiasm and cooperation in support of the Subcommittee's efforts. Further, we want to provide you with the most current statistical information available on potential homeownership, and the financial barriers to that homeownership. Clearly, The National Housing Trust is "on target" as perhaps the best approach for overcoming those barriers.

NATIONAL HOMEOWNERSHIP TRUST ACT

The National Homeownership Act establishes a Trust within the Department of Housing and Urban Development (HUD) to provide assistance to first-time homebuyers. It is governed by a board of Directors that includes the Secretary of HUD, the Secretary of Treasury, the Chairs of the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation, as well as one consumer representative appointed by the President and confirmed by the Senate.

The Trust has the same powers as those given the Government National Mortgage Association and the Federal National Mortgage Association.

The National Homeownership Trust Act authorizes the Trust to provide assistance payments for first-time homebuyers through (1) interest rate buydowns not to exceed 6 percent, and (2) downpayment assistance, including closing costs and other costs payable at time of closing.

In addition to restricting access to first-time homebuyers, assistance is also restricted to those whose incomes are at or below 95 percent of the area median income, or 115 percent of such median income in the case of an area subject to an FHA high cost area mortgage limit. Initial eligibility and recertification at least biannually is a requirement of the Board of Directors of the Trust.

The potential homebuyer is required to certify that he/she has made a good faith effort to obtain a market rate mortgage and been denied because of annual income.

The maximum mortgage amount is restricted to the maximum FHA amount for the area, with the interest rate restricted to a fixed rate that does not exceed the maximum rate established by the Trust.

Homepurchasers under this plan must pay a minimum downpayment of one (1) percent.

Repayment provisions are triggered under three conditions:

(1) Upon sale, assistance payments are repayable from the net proceeds of the sale, without interest, with forgiveness of assistance payments in excess of net proceeds;

(2) If the aggregate annual income of the buyer (and the buyer's family) exceeds the applicable maximum income allowable for any two-year period, the Board may provide for the repayment, on a monthly basis, of all or a portion of the assistance;

(3) If the property ceases to be the buyer's principal residence, the Board may provide for the repayment of all or a portion of the assistance.

The Housing and Community Development Act of 1992 expanded the program to include its use in conjunction with mortgage revenue bonds (MRB's), the purchase of a manufactured home, and for second mortgage assistance.

The Trust has been authorized since 1990 at a level of $250,000,000 for fiscal 1991, increasing to $521,500,000 for fiscal 1992, $520,665,000 for fiscal 1993, and $542,000,000 for fiscal 1994. No funds have been appropriated by Congress for the Trust, however.

In short, the National Homeownership Trust directs federal assistance to the problems young families face when trying to purchase their first home.

BACKGROUND AND ECONOMIC ANALYSIS

Home building uniquely affects virtually every working American, either directly as an employee on the construction worksite, indirectly as a worker involved in one of the myriad number of trades associated with housing production or rehabilitation, or as a housing consumer, whether owner or renter.

The majority of NAHB member firms are truly small businesses, primarily engaged in the construction of single family homes and/or the remodeling of those homes. To a lesser extent, NAHB members are engaged in light commercial projects and the building of multi-family residential structures. Indeed, over half of our members build fewer than 10 home per year, and close to 75 percent of our members build 25 or fewer homes.

The sad reality, however, is that many builders find themselves unable to provide true "entry-level" housing at all in various areas of the country. Escalating timber prices and the continuing problem of regulatory burdens to affordable housing both contribute to the problem.

When the cost of "entry-level" housing moves higher and higher, and in an increasing number of areas into the six-figure category, many, too many, families find themselves priced out of the market until well into their careers.

The hurdles that young people must jump in order to become home owners have become more difficult to over come in the past 10 to 15 years. As a result, the national home ownership rate has fallen one and a half points since 1980. The decline in home ownership is concentrated in younger households.

For young households the frequency of home ownership has dropped by 10 percentage points or more since 1980. Households with heads between 25 and 29 saw the rate of home ownership drop 10 percentage points, from 43.3 percent to 33.6 percent between 1980 and 1992. Similarly, households whose head was 30 and 34 years old had a home ownership rate of 61.1 percent in 1980 that fell to 50.5 percent in 1992. Households with a head age 35 to 39 saw a drop from 70.9 percent to 61.4 percent. If young households of the 1980s had purchased their first homes as frequently as those in the 1970s, there would be 3.5 million more young home owners in 1992 than there actually were.

Even the relatively high rates of home ownership for married couple households have experienced significant declines. Married couples whose head is under 35 had a home ownership rate of 55.7 percent in 1992, down 5 percentage points from 60.8 percent in 1980. Home ownership of married couple for every age group under 50 fell from 1980 to 1992. If married households with head under 40 years old had maintained their 1980 rates of home ownership, there would be 1.4 million more home owners today.

The decline in home ownership has been persistent throughout the last 12 to 14 years. Many believed that the drops in home ownership at the beginning of the 1980s were due to the recession, high interest rates, and poor income performance for new entrants to the labor force. However, half of the decline in home ownership of young households (under 35) occurred before 1983. The other half has occurred in roughly equal installments since that time. Home ownership opportunities and abilities have continued to decline even after the early 1980s.

Eliminating the cause for these drops is the focus of the National Homeownership Trust. First time home buyers do not have sufficient cash for the down payment and closing costs nor do they have sufficient income to support the large mortgages necessary to purchase today's homes. There are several pieces of solid research to support these conclusions. The Joint Center for Housing Studies at Harvard states, in the *State of the Nation's Housing 1993*, that "only 25 percent of all young renter households could cover the 10 percent down payment and closing costs required to purchase the representative home." Minority households' are even less able to accumulate the down payment–only 13.6 percent have the up front cash needed for a home in their area. While down payment remains the largest barrier, many young potential first time home buyers also have

insufficient income to support the mortgage payments. Three in five potential first time home buyers do not have the income to support a representative home if the mortgage interest rate were 8 percent. About another 10 percent are disqualified if interest rates were 10 percent.

An even more exhaustive research project was recently completed by the Census Bureau, entitled *Who Can Afford to Buy a House?*. This report supports the conclusions of the Joint Center report and adds more detail to the why. First, by including more mortgage qualification requirements (mortgage debt to income ratio and all debt to income ratio), the Census report shows that about 90 percent of young renter families cannot afford to purchase even a modestly priced home. About seven out of every ten renter families who cannot afford to purchase have more than one affordability problem. The majority of renters who cannot afford to purchase have insufficient income to make the mortgage payment and insufficient cash, either to pay down other long term debt to within the mortgage underwriting guidelines for total debt burden or insufficient cash to make the down payment and closing costs.

The grant assistance envisioned in the National Homeownership Trust gives state and local governments the power to address the multiple problems of affordability that exist in their communities and states. The strength of this program lies in its flexibility. Existing programs for first time home buyers provide needed assistance but often in only one dimension. The Mortgage Revenue Bond program provides mortgage payment assistance by reducing the interest rate for eligible home buyers. The FHA insurance program, while fully self supporting, provides opportunities for first time home buyers with little cash to finance a larger portion of the home. Private mortgage insurance provides similar, albeit lower, loan-to-value ratios. Nearly all MRB financing combines mortgage insurance with the lower interest rate mortgages. Even this level of assistance, however, is not sufficient for many deserving, modest-income families.

The dual-edged problem many families face in trying to buy their first home is that the smaller the down payment, the larger the monthly payments. Hence, even if they are able to save enough for the minimum down payment, the mortgage necessary to finance the rest of the purchase requires monthly payments beyond their means. To worsen this situation, these young households are just starting job careers so that their current incomes are relatively low, especially compared to their potential over a lifetime. Further hindering their ability to borrow for a home, they have already incurred debt for their education, an automobile, furniture, etc. These responsibilities come at exactly the wrong time for a young household to incur additional debt and use their limited savings for a down payment.

Nevertheless, home ownership remains the primary goal of most Americans. According to a recent survey by the Fannie Mae, 86 percent of those surveyed want to own a home. An NAHB survey of renters found that half of the renters who planned to move, wanted to own. Home ownership continues to provide most Americans with their single biggest financial asset. The Joint Center reports about 60 percent of all home owners'

wealth is the equity in their home. Because renters have lower income and because they do not own a home, the median wealth of all renters is 3 percent of the median wealth of all owners.

Because the problems are so diverse, any assistance for first time home buyers will have an impact on some potential buyers. However, some types of assistance have a greater impact than others. Direct down payment assistance provides help to the largest number of potential first time home buyers. Direct assistance through grants and non-amortizing second mortgages, so called soft seconds, help families around the down payment hurdle without increasing their monthly debt burden.

The Census Bureau report on who can afford to buy analyzes the effects of lower interest rates, lower down payments and down payment subsidies. One, very distinct conclusion, can be drawn from the Bureau's analysis. Down payment subsidies improve affordability for a significantly larger number of families than do interest rate reductions and lower down payment requirements. This conclusion is invariant to the type of financing (FHA or conventional) or house price (median or modest). For instance, a $5,000 down payment subsidy allows an additional 4.2 million renter families to afford a modestly priced home using FHA financing. Buying down the interest rate 2 percentage points increases the number able to afford by only 173,000 families and reducing the down payment requirement from 5 percent to 2.5 percent increases the number able to afford by 194,000 families. A list of the policy options tested under four combinations of house price and mortgage type and the increase in affordability is included in Exhibit 1.

The options for assistance in the National Homeownership Trust leave some flexibility to the grantees. If interest rates are relatively high, then an interest rate subsidy may be more beneficial than help with the down payment. Conversely, if the grant can be combined with MRB financing and interest rates are like they are now, then help with the down payment may be more beneficial. NAHB compared the options analyzed by the Census Bureau with our estimates of the potential federal cost if each was to become a program. The Census Bureau estimated the potential increase in the number of families who can afford to buy a modestly priced home. NAHB estimated the potential cost per subsidized loan for down payment subsidies of $10,000, $7,500, $5,000 and $1,000 and of interest rate buy downs of 3 percentage points, 2 percentage points, 1 percentage point, and half of a percentage point. Our estimates of the cost per loan of each option are shown in Exhibit 2. Interest rate buy downs, in our estimation, are relatively expensive, especially when compared to the estimated number of renters that are likely affected. Down payment assistance, on the other hand, is relative less expensive and affects a significantly larger percentage of the renter families. (We have assumed half of those receiving a down payment assistance will have sufficient equity to repay the grant after 5 years).

These cost estimates may vary as the prevailing interest rate, house appreciation, and repayment requirements differ. However, our example offers a reasonable comparison of the differences in the cost and likely benefit of different policy options. The National

Homeownership Trust should be flexible to meet all needs. However, we believe its greatest chance for increasing the opportunity for first time homeownership is through the use of no interest down payment assistance.

RECOMMENDATIONS

Mr. Chairman, we believe the concept of the Trust is sound. But, economic changes that have resulted in mortgage rates at all time lows, and a change in the political climate may suggest we should at least explore other possible changes for the Trust.

The program is currently designed with a repayment requirement if there is sufficient equity to cover the assistance. NAHB recommends this requirement be modified to allow every owner to benefit from potential house price appreciation. The MRB program contains requirements for reimbursement that cap the payback at the lower of 6.25 percent of the mortgage amount, half of the appreciation, or a formula that compares income increases and the holding period. While somewhat complex, the spirit of the repayment schedule is to share appreciation between the federal government and the home owner. No pay back is required if the home owner stays at least nine years. We would recommend that the National Homeownership Trust adopt the spirit of the MRB recapture provisions.

Additionally, since neither HUD nor the Appropriations Committee has demonstrated any willingness to establish the Trust, their exist two major hurdles – one of interest in administering such a program, and the other of funding.

On the administering side, options other than HUD potentially exist. HUD could serve as the distributor of the funds, but the state housing financing agencies, for example could actually run the program. With slight modifications in income limits and the repayment structure that we discussed above to conform to the mortgage revenue bond program, if properly funded by Congress could serve to complement the MRB program.

The problem of appropriations would still exist, but the operational structure would not need to be created from whole cloth.

NAHB recognizes and subscribes to policy in support of reducing our nation's debt. We also recognize the need to house both adequately and affordability our nation's low- and moderate-income families. We do not believe that these two policies must by necessity be in direct conflict. If, and when, the National Housing Trust becomes a priority program, initial funding will follow. Initial funding may be far less than either the Chairman or NAHB desires, but it would, nonetheless, be an improvement from the status quo.

CONCLUSION

Obviously, there exist several approaches the Subcommittee could take to achieve the goals envisioned by establishing the National Homeownership Trust Act. Whether the Subcommittee ultimately decides to modify the program or stay the course with existing law, NAHB remains committed to the overall objective of expanding homeownership opportunities for young families.

We also intend to continue our efforts of recommending that Congress appropriate funding for the Trust or its successor.

Thank you again, Mr. Chairman, for the opportunity to present our views. I will be pleased to respond to any questions that Members of the Subcommittee may have.

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EXHIBIT 1

POLICY IMPACTS

Additional Renter Families Able
To Purchase A Home (000)

	Conv. Financing		FHA Financing	
	Median Priced Home	Modestly Priced Home	Median Priced Home	Modestly Priced Home
Down payment Subsidy				
$10,000	2,356	4,817	2,662	5,156
$7,500	1,753	4,015	2,378	4,783
$5,000	794	2,525	1,948	4,233
$2,500	263	497	561	2,295
$1,000	106	163	169	449
Interest Rate Reduction				
3% lower	224	143	265	261
2% lower	160	90	193	173
1% lower	100	44	110	76
0.5% lower	40	12	67	14
Reduced down payment required				
No down payment requir	304	449	4	450
2.5% down payment requ	143	194	4	194

Source: Bureau of the Census, Who Can Afford to Buy a House in 1991?
as complied by NAHB Economics

EXHIBIT 2

Costs of First Time Home Buyer Assistance Options
and Additional Renter Families Able to Afford

	Added Families (000)	Est. Cost per loan	Eff. Cost per 1,000 added Fam.
$2.5K dwnpmt subsidy	2,295	$1,640	$0.71
$5K dwnpmt subsidy	4,233	$3,280	$0.77
$7.5K dwnpmt subsidy	4,783	$4,920	$1.03
$10K dwnpmt subsidy	5,156	$6,560	$1.27
$1K dwnpmt subsidy	449	$656	$1.46
3% lower interest rate	261	$4,510	$17.28
2% lower interest rate	173	$3,059	$17.68
1% lower interest rate	76	$1,554	$20.45
0.5% lower interest rate	14	$783	$55.90

Source: NAHB Economics
Note: Added families from "Who Can Afford to Buy a House in 1991?" assuming FHA financed, modestly priced home purchased. Market rate interest at 9.5%. Half of down payment subsidy recipients repay in full, discounted at 7.5% and repaid after 5 years. Interest rate buy down for 5 years.

ELIZABETH FURSE
1ST DISTRICT, OREGON

COMMITTEES
BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEES
HOUSING AND COMMUNITY DEVELOPMENT
CONSUMER CREDIT AND INSURANCE

MERCHANT MARINE AND FISHERIES
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MERCHANT MARINE

ARMED SERVICES
SUBCOMMITTEE
RESEARCH AND TECHNOLOGY

Congress of the United States
House of Representatives
Washington, DC 20515-3701

OREGON OFFICE
MONTGOMERY PARK
2701 NW VAUGHN #880
PORTLAND, OR 97210
(503) 326-2901

WASHINGTON OFFICE
316 CANNON BUILDING
HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515
(202) 225-0855

QUESTIONS FROM REP. ELIZABETH FURSE

TO MR. IRVINE

OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

1. I'd like to take the opportunity to ask an Oregon panelist to answer some Oregon specific questions. Could you outline the public-private partnership which you have done in Linn and Benton Counties in Oregon? Specifically, I'm wondering if you could go into further detail about how this public-private partnership came about, and how it has worked so far. I'm also interested in what your experience has been in working with non-profit groups and the lending community?

PRINTED ON RECYCLED PAPER

(MR. IRVINE'S RESPONSES TO CONGRESSWOMAN FURSE'S QUESTIONS)

National Association of Home Builders
1201 15th Street, N.W., Washington, D.C. 20005-2800
(202) 822-0200 (800) 368-5242 Fax (202) 822-0374

James R. Irvine
First Vice President

Reply to:
Conifer Group, Inc.
3140 S.E. Hawthorne Boulevard
Portland, OR 97214

March 24, 1994

The Honorable Elizabeth Furse
Congress of the United States
House of Representatives

Dear Representative Furse:

In response to your request for information about our public-private partnership in Linn and Benton Counties the following information is provided.

Because of my personal involvement in affordable housing issues over the past many years, I was contacted to participate in a tour of several cities in Oregon to investigate how we could put together affordable housing projects. We were able to identify two communities that wanted to put forth the effort to initiate some form of such a project, Lebanon and Coos Bay. The Lebanon project is being facilitated by the Linn-Benton Housing Authority located in Albany and the Coos Bay project by the City of Coos Bay.

We are well underway on the Lebanon project and have formed a Focus Group of potential residents to discuss home styles, floor plans, and amenities. My company has the in-house capability of designing the exterior appearance of these homes to fit architecturally into the existing community. Our experience so far has been outstanding. We have received a very warm, positive reception from the Linn-Benton Housing Authority and are enjoying a great working relationship. I have enclosed some background and focus group information for this project.

My staff at the Conifer Group, Inc. is working very closely with the City of Coos Bay City Manager to draft a contract so we can move forward on this project. This process will take a few more weeks, and then we will be using the same "focus group" format to determine the specifics.

Our most recent experience in this type of affordable housing project has been with the Vancouver, Washington Housing Authority. We are finishing the first six houses of what we hope will be many. This has been a very exciting and extremely worthwhile project. The Housing Authority, the neighborhood association, the City of Vancouver, and many others have all come together to make affordable housing for six families a reality.

My overall experience in working with non-profit groups and the lending community in our area of the country has been very, very positive.

I hope that these examples of projects will serve as prototypes for affordable housing opportunities across the nation. Thank you very much for the opportunity to participate. Please do not hesitate to call on me or my staff for any additional information or details regarding these very creative and exciting endeavors.

Best Regards,

for Douglas J. West, Project Manager
James R. Irvine
First Vice President
National Association of Home Builders

Enclosures:

Linn-Benton Background
Focus Group Welcome Letter A
Focus Group Welcome Letter B
Design Questionnaire

INTRODUCTION

Our purpose is to develop a cooperative working relationship with the Linn-Benton Housing Authority (LBHA) resulting in making affordable housing available to the residents of these counties. Any successful attempt to address affordable housing must capture the interest and dedication of LBHA and the other stakeholders in this process. The targeted customers are county resident families earning 80% of the area's median income. The Conifer Group will develop an affordable housing process along with the intended result of 28 housing units. The process should serve as a templet to allow for additional units on into the future.

AFFORDABLE HOUSING

Availability of affordable housing is the result of a well executed appropriate process. This process must include: the delivery of cost effective and attractive product (houses). Workable and accessible financing arrangements, and manageable long-term operating/maintenance costs. Solutions are marginal and temporary without all three ingredients.

THE CONIFER GROUP

The Conifer Group is a team of housing experts lead by Jim Irvine. The company includes individuals with expertise in marketing, finance, and field construction. Over 100 years of housing construction experience is contained within the management group. The company maintains full time employees as designers and project managers with expertise in all areas of residential construction.

Jim Irvine, President, has been an active homebuilder and developer in Oregon for over 20 years. Jim currently serves as Vice President/Treasurer of the National Association of Home Builders, the largest trade association in the U.S. Jim will elevate to President in 1995 of this organization representing 160,000 businesses and over 8 million employees. Jim also serves as a National Director of the Federal Home Loan Bank.

The Conifer Group has specifically been involved with affordable housing projects for over two decades. Jim/Conifer is the only builder to be voted "Builder of the Year" twice in Oregon. Conifer was the first builder in Oregon to achieve self-certification through testing and quality Control programs for H.U.D. financed projects. The Company issues 10 year HOW insurance policies on all houses and has never received a claim since the program inception in 1975.

THE PROJECT

The company proposes to immediately utilize the Lebanon 28 lot development project as an example of a successful affordable housing program. This project will include single family dwellings, financing arrangements for individual purchasers, training for new home buyers, and a program for continuing a supply of affordable housing to the community.

LOCATION: The 28 lots available as described by LBHA are located on 11th and 12th streets.

DESCRIPTION: The project will deliver single family detached houses priced for families earning 80% of the areas median income. This is calculated at:

3 person family: $23,400/year income. $585/mo. housing
4 person family: $26,000/year income. $650/mo. housing
5 person family: $28,100/year income. $702/mo. housing

DESIGN/ENGINEERING: All homes should be of traditional American architectural styles. Our base designs are flexible to allow growth within the family without forcing a change of residence. Each base design allows modification to meet different family needs.

An Example of design is the Northwest Preston. This home is described as: 1040 sq.ft. on the main floor including 2 finished bedrooms, living room and country kitchen. The plan offers a single car garage with an option to expand to a double. All construction is double wall with horizontal lap siding. A forced air heating system is included. All appliances are included in the pricing, including: refrigerator, range and hood, dishwasher, and garbage disposal. All homes are equipped with washer\dryer hook-ups. Additional appliances and/or upgrades may be purchased at cost. The basic package includes: a 520 sq.ft. 2 bedrooms, 1 bath, unfinished living space upstairs. In these areas we provide all necessary electrical and plumbing hook ups so the space can be finished with easy by the homeowner. This home can be provided completely finished. An additional 520 sq. ft. storage area is included.

Another example is the Northwest Pine Gables, described the same as above finish quality with: 840 sq.ft. on the main floor, 2 bedrooms, 1 bath, living room, country kitchen. Unfinished living space with 2 bedrooms, 1 bath. 420 sq.ft. storage area available and single can garage.

All homes will be built to standard UBC guidelines and will be insured by the Home Owners Warranty (HOW) program. HOW is the only BEST rated home warranty program in the country and offers a full 10 year, transferable, structural integrity insurance package.

OPTIONS: An issue often discussed in any entry-level housing program is how to deliver a product with design integrity and

adequate floor space that meets the expectations of the home buyer and at the same time provides a quality product that offers a life cycle that meets a cost-benefit test. Our house plans are designed to answer this question by providing the homeowner with two options: variable floor plans and those with unfinished upstairs.

Our variable floor plans are expandable based on the needs and financing available to the final buyer, but even the smallest plan provides adequate floor space for a small family. Living comforts will not substituted for cheaper housing.

Secondly, we have plan sets that provide for an unfinished upstairs. This option allows the homeowner to maximize quality in carpeting and cabinetry on the first floor and then finish the upstairs with the same quality of materials as time and money permits. Often, our customers prefer this option as a means of expressing their personal style and allowing them the best possible furnishings for their present investment.

We respect our customer's desire to have the best house for their money and understand that this home will be theirs for many, many years. Therefore, our OPTIONS approach offers the most flexibility and the maximum quality for the best price.

FINANCING: Finance qualifying includes monthly payment guidelines and down payments. We intend to work with conventional community lenders for the traditional mortgage portion of the lending requirements. The issues concerning availability of down payment must be more flexible to achieve maximum penetration of the target customer group. LBHA and cooperation with the City of Lebanon will hopefully provide the opportunity for resolving the down payment dilemma.

MARKETING: The company intends to conduct focus group marketing sessions in Lebanon composed of pre-qualified potential purchasers before construction. Specific information to be determined will be architectural style preferences, sizes, floor plan layout options, color selections, and amenities package. Additional research will determine acceptability of deed restrictions and formats, projected absorption rates, and financing packages. Marketing efforts will include a cooperative venture of local lenders, LBHA and The Conifer Group. Assistance will be requested from these entities to target the 80% of Median income customer.

Media promotion exposure, print advertisements, and direct mail flyers will be used. The focus groups should ignite discussion within the community which the company will harvest.

HOUSING AUTHORITY ROLE

We expect LBHA to be a fully involved cooperative partner in the development of this project and process. These clearly are areas of great value that LBHA and the community could assist.

Specifically:

Allowing Conifer to purchase and pass through developed land cost at $5000 per lot for all 28 lots.
Assist in focus groups and marketing approach.
Assist in identifying and pre-qualifying purchasers.
Assist in expediting permitting functions.
Exercise a purchase of the first 15 units at pre-negotiated prices.
Subordinate land costs and development fees, with payments due at buyer closing.

CONCLUSIONS

It is the intent of this project to develop an affordable housing process, not just a few affordable houses. It is reasonable to expect that a potential endowment financing vehicle can be implemented as a result of our work together. LBHA should be able to implement a continuing program of land acquisition, cost should be able to implement a continuing program of land acquisition, cost effective infrastructure, development, and affordable housing construction.

The challenges of providing affordable housing to our communities will not diminish. We must however address this issue with a full commitment and cooperative nature. The traditional approaches are not working. There are solutions within our grasp.

The Conifer Group offers the most experience, commitment, resources and vision of any company operating today in Oregon in reaching goals of providing affordable housing. We are eager to work with Linn-Benton Housing Authority, the City of Lebanon, Liberty Federal Bank and targeted citizens to expand housing opportunities.

the Conifer group inc.
3140 S.E. Hawthorne
Portland, Oregon 97214
(503)239-0015

December 16, 1993

MEMORANDUM FOR FOCUS GROUP PARTICIPANTS

SUBJECT: Design Focus Group

I would like to take this opportunity to welcome each and every one of you to this first meeting of our Focus Group for the Linn-Benton Housing Authority Affordable Home Ownership Program.

I am very excited about this project. My entire staff at The Conifer Group, Inc. is excited about this project. We are very anxious to get underway as quickly as possible.

The expressions of interest we have received from the City of Lebanon and from Liberty Federal Bank have been outstanding and has already created an atmosphere of partnership from which to kick off this substantial project.

There is a desperate need in our communities for affordable housing. We need to make the American dream a reality for the many young families that are trying so hard to teach their children the values that will keep this nation strong. They need homes in neighborhoods with kids next door and friends down the street. They need to be able to play in the back yard and to go to the park.

The team assembled here can assist in creating this environment for these families. I look forward to working with each and every one of you in the weeks ahead as we begin the planning phase for this great endeavor.

Sincerely,

JAMES R. IRVINE
President

the Conifer group inc.
3140 S.E. Hawthorne
Portland, Oregon 97214
(503)239-0015

WELCOME TO THE MEMBERS OF THE FOCUS GROUP FOR AFFORDABLE HOUSING IN LEBANON

This project, when viewed in its entirety, can easily seem overwhelming and impossible. However, any project can be broken down into readily accomplished steps. Our goal is to make the designing and building of homes a series of smooth steps that will, in the end, provide new home ownership opportunities.

The first step is to dream. Dream of a home that includes the spaces you want, but within the limits you can afford. To help organize your thoughts, we have included a questionnaire with this package. It asks about your lifestyle and lists things that might be important to you, but which you might forget to consider.

During this stage, you will narrow down your thinking from what would be absolutely ideal to what is practical and affordable. We have outlined a method of thinking about practicality, which may make the choices a little clearer. There are basically three factors which enter into your house design, three key choices which have to be balanced one against the other. These are: budget, design/style and size.

These will be the deciding factors in the design of your home. In the initial dreaming, you were concerned mainly with design/style. Now, you will combine your budget limitations (a good lending officer can help you with this determination), with what you feel are your needs or limitations in size, and balance them against your design list. This step allows you to consider the budget-design-size triangle and decide where your priorities lie. List what you have to have, what you would like to have, and what you definitely don't want. Decide realistically what your budget is, and what you desire in your style of living. Consider yourself, your family, the site, the weather, solar possibilities, etc.

We hope the questionnaire we have provided stimulates your thinking but also helps you to recognize your budget constraints.

Conifer group inc.
3140 S.E. HAWTHORNE BLVD.
PORTLAND, OREGON 97214

DESIGN QUESTIONNAIRE

We have designed this questionnaire to serve two purposes. The first is to help you consider as many factors as possible in listing your needs and desires in a new home. The second is to help communicate those to our designers. Please consider this a tool, to be used in the easiest way for you; make notes here, use other sheets - whatever works the best for you. Don't feel you have to get too detailed. We will be following up with you, and will have plenty of opportunities to clarify details as we go along.

1. WHO WILL LIVE IN THIS HOME?
   - A. Adults:___Children:___Ages:___
   - B. Elderly___handicapped___other___special needs?
   - C. Guests: Occasional___frequent___How long?___ Mainly relatives___mainly friends___
   - D. Others: boarders___live-in help___other?
   - E. Do you expect the composition of the household to change in the next 5 years___ten___(i.e.: new children, grown children leaving, adults moving in): Please explain.

2. LIFESTYLE
   - A. Have you ever owned a home before?
   - B. What type of home do you live in? Apartment___house___ mobile home___other?___ Size?_____
   - C. How do you live? Casually___Informally___Formally___
   - D. How do you entertain? Casually___informally___formally___ Please elaborate.
   - E. What do you do for entertainment at home?
     Talk: living room___family room___kitchen___outdoors___
     Read: living room___family room___Kitchen___study___
     Watch TV: living room___family room___kitchen___ bedroom___
     Listen to music: living room___family room___ kitchen___bedroom___other?___
     Any other major entertainment to consider?
     Do you need play space for children? Indoor bedrooms___ family room___outdoors play yard___outdoors play yard___ lawn___other?___
   - F. Place for meals (% of time) dining room___kitchen___ family room___living room___deck___other?
     Type of meals (% of time) on the run?___buffet___sit down___/formal___informal___
     Type of meals (% of time) on the run___buffet___sit down___ formal___informal____
     Type of cooking facilities you like? simple___average___ elaborate___separate kitchen___kitchen/dining room___ other combination?
     Do two or more cook at the same time?

G. What is your approach to housekeeping? wary___average___ extremely neat___
What laundry space do you require? Any special needs? (please list)___

H. What hobbies do you have?

I. Do you work at home? any special needs?

3. LOCATION, CLIMATE, ORIENTATION
   A. At what temperature do you like to live?___
   B. At what temperature do you like to maintain your bedroom?____
   C. Do you need to provide for privacy during the day___at night___always___?

4. RESPONSE TO SPACE
   A. Which statement applies best:
   I feel need for space in which to spread out physically___visually___please comment.
   I feel need of enclosure and protection physically__ visually___please comment.
   B. What % of time do you spend your day:
   a. Mostly at home: alone___with children___other?
   b. Elsewhere: in loud groups___alone___other?

5. LIGHT
   A. Do you prefer indirect, even lighting, or dramatic, focused lighting?
   Do you need special lighting for certain tasks? Please explain.

6. MAINTENANCE/EXTERIOR
   A. How much money do you want to spend on upkeep?___min. not a deciding factor___.
   B. How much time do you want to spend on upkeep?___min. not a deciding factor___.

7. HOUSE CHECKLIST
   A. Site. Please describe what features you would like to see in your yard.
   Front:

   Back:

   B. General Design
   (Please include any photographs, drawings, or sketches of homes or parts of homes you like
   One story ranch___two story___split level___other?
   Size of house in square feet: main floor___other floors
   Total___
   Bedroom: number___size(s)____

Bathrooms: number___full or partial? Master bath: size, needs.
Entryway: elaborate___functional___comments.
stairway: elaborate___functional___comments.
Fireplace: yes___no___in which room(s)___
Basement: outside entry___interior entry___both___
Exterior: traditional___contemporary___Do you have photos of what you like?
Type of roof hip___gable___gambrel___shed___other___
Finish floor material describe (by room)
Garage yes___no___number of cars:____
Carport yes___no___number of cars?

C. FINANCIAL NOTES
We discussed the relationship of size, design/style and budget.
Have you adopted a working budget?
Approximate dollar range budgeted excluding land and improvements?

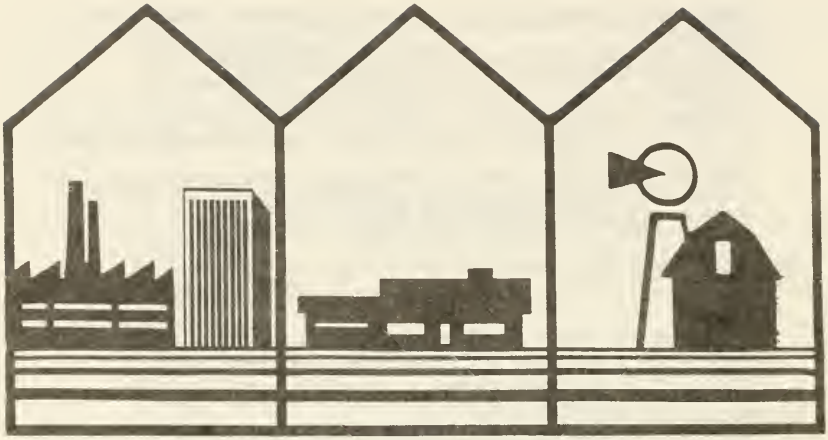
D. MECHANICAL REQUIREMENTS.
Please consider and list needs pertaining to:
Heating, venting, washer. dryer, dishwasher, garbage disposal.

E. STORAGE AREAS
Please consider and list needs pertaining to:
Entrance closets, bedroom closets, linen closets, Storage, kitchen equipment.

F. STORAGE AREAS

Please consider and list needs pertaining to:
Entrance closets, bedroom closets, linen closets, storage, kitchen equipment.

8. OTHER COMMENTS?



Statement of the

NATIONAL ASSOCIATION OF REALTORS®

The Voice for Real Estate™

THE WORLD'S LARGEST TRADE ASSOCIATION

TO:	HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
ON:	BARRIERS TO HOMEOWNERSHIP & THE NATIONAL HOMEOWNERSHIP TRUST PROGRAM
BY:	RICHARD R. HARPS, PAST CHAIRMAN, REALTORS® HOUSING AND COMMUNITY DEVELOPMENT COMMITTEE
DATE:	NOVEMBER 18, 1993

STATEMENT OF THE

NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

BY

RICHARD R. HARPS

NOVEMBER 18, 1993

Mr. Chairman, Members of the Housing Subcommittee, my name is Richard Harps. I am a REALTOR® from Washington, D.C. and former Chairman of the Housing and Community Development Committee. On behalf of the over 700,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I would like to thank you for the opportunity to testify today on the difficulties faced by potential first-time homebuyers, and specifically on the National Homeownership Trust.

Mr. Chairman, as I indicated in testimony before this Subcommittee in 1988, the NATIONAL ASSOCIATION OF REALTORS® has a long tradition of support for innovative and effective Federal programs that are intended to benefit first-time and low-to-moderate income homebuyers. The inclusion of the National Homeownership Trust Demonstration in the Cranston-Gonzalez National Affordable Housing Act was a constructive and unique contribution to the Federal Government's efforts to strive toward that goal.

Housing: A National Priority

Housing has always been and continues to be one of the highest personal and social priorities in America. In recognition of this national expression, the National Housing Act of 1949 was adopted to ensure "decent and suitable" housing for all Americans.

National housing policy emanating from this landmark legislation traditionally has been directed toward two primary goals: providing an adequate supply of affordable housing for all Americans, and promoting widespread homeownership opportunities.

As a nation, we must ensure that every citizen has the opportunity to enter the housing arena. Housing should be viewed as a series or ladder of opportunities. The first few rungs of the ladder are steps through rental housing, represented by persons of low and moderate incomes. First-time homebuyers represent the middle of the ladder, with repeat homebuyers moving up the succeeding steps.

Homeownership directly benefits society by fostering pride and participation in one's community, encouraging saving and promoting social and political stability. The NATIONAL ASSOCIATION OF REALTORS®, and others, continue to believe that homeownership deserves a preferred place in our nations's system of values.

For the past 50 years, public policies have been pursued to ensure an effective system for the delivery of housing to all Americans, and significant progress has been made toward achievement of that goal. The tremendous housing needs that faced the nation in the 1930s and the war years have been alleviated by the combination of robust economic growth and successful Federal policies. These gains have brought the country much closer to its housing goals and resulted in a steady rise in the nations's homeownership rate from 44 percent in 1940 to over 65 percent in 1980. During the 1980s, however, homeownership rates fell below 63 percent before returning to the current 64.1 percent for 1992.

The stabilization of home-ownership rates, however, masks underlying housing problems that have recently been growing. The NATIONAL ASSOCIATION OF REALTORS® is very concerned that families are finding it increasingly difficult to save for a downpayment on an home, and that this trend will hamper the ability of our citizens to climb the housing ladder to homeownership. In addition to being good investments, owned homes offer advantages such as privacy and control over features of the home that frequently are unavailable in rented housing, and these advantages often are more conducive to households with particular demographic characteristics.

Several recent studies have examined the impact of changes in the demographic composition of the U.S. on homeownership rates overall, and on individuals' ability -- and desire -- to purchase homes. It is instructive to look at some of this evidence on the characteristics of potential buyers and their implications for homeowning in the United States.

Although some people always remain renters, a majority of renters do eventually become homeowners. A recent NAR survey found that 68% of renters plan to buy a home sometime in the future, and over a quarter of those expect to buy within two years. Current owners, on the other hand, are less likely to trade-up into bigger or better homes, with only 25% planning to trade up in the future (a quarter of those will do so

within two years.)[1] Unlike renters, current owners have existing home equity necessary to make a downpayment, although many do not choose to move up. In contrast, renters with the desire for owning a home frequently can not afford to make the purchase; hence, affordability is a primary factor affecting the decision to become owners.

Demographic characteristics of homeowners versus renters

Household characteristics differ in some important ways between households that own their own homes compared to households who rent. Many more renters than owners are minorities, who on average have lower incomes, and historically have had lower homeownership rates. However, as minority populations increase as a share of the total U.S. population, and as immigrants become more and more established and financially stable, this group can be expected to become a larger proportion of homeowners in the country.

However, many renters are inexperienced in the housing market. A relatively large percentage are minorities, many of whom are recent immigrants, who by and large have less education and frequently have language barriers that prohibit them from learning more about their ability to buy a home. The Joint Center for Housing Research at Harvard University notes that, "Since immigrants now account for much of the nation's population growth, they will have a profound impact on the character and location of future housing demand."[2] In addition, a majority of renters are young, having never previously owned a home, and thus are less likely than owners to understand the home buying process. NAR's recent survey found that many renters were not aware of what it takes to save for and purchase a home, and many expected to receive far more government assistance in doing so than owners actually experienced.

Housing Affordability

One important factor that appears to have changed, however, is the affordability of purchasing a home, particularly for first-time buyers who have yet to build substantial equity. This change has resulted from the increased costs of living faced by renter households in particular, thereby making more difficult the accumulation of enough money to make a downpayment, pay closing costs, and cover other cash costs of purchasing a home. The Joint Center at Harvard notes that, "While more young renters have the income to qualify for a mortgage, many still lack the downpayment to take

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[1] NAR, *Survey of Homeowners and Renters: Key Findings*, October 1992.

[2] Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing 1993*, Executive Summary Key Findings.

advantage of improved homeownership affordability [resulting from falling mortgage interest rates and decreases in other ownership-related costs.]"[3]

The Joint Center presents changes in housing costs that have occurred over the past decade compared to changes in average income of households. This data clearly shows that while the costs of homeownership were falling over the decade, rental costs were increasing in excess of income growth: gross rents increased on average 164% more than real incomes of all renters increased. The discrepancy is even more notable among young renters: their incomes increased by less than 1% in real terms over the decade, so that the growth rate of rental costs was approximately six times the rate of income growth. In addition, for first-time buyers, housing cost as a percent of income dropped by more than 23%, while for renters, the share of income devoted to housing rose by over 4%.

This discrepancy between rental costs and ownership costs highlights the difficulties faced by potential first-time buyers. Although costs of ownership have actually fallen in real terms over the past decade--largely because of reductions in interest costs, but also because of other declines in real costs-- renters have faced rising costs of living without commensurate income increases, and hence, many have encountered unsurmountable hurdles in accumulating downpayments and closing costs.

This situation particularly presents a barrier to homeownership for the young households who are beginning their ascent up the housing ladder. NAR's survey shows that among the 51% of renters who say they are currently renting because they can't afford to buy, 49% of them are under age 35 and over 75% are under 45. Since this young group comprises the largest source of potential homebuyers, helping such households overcome the downpayment barrier is essential to assisting them in purchasing a home.

Perceptions of the Value of Homeownership

In spite of affordability problems, and even though there has been a great deal of press about the reduced value of purchasing a home as an investment, most people continue to believe that owning a home is not only worthwhile for living purposes but also as an asset. For example, NAR's survey finds that almost three-quarters of owners and about a third of renters believe that owning one's home is "extremely important".

Clearly, owners are committed to the value of ownership. While renters as a whole are not as strongly convinced of ownership's value, those who are closest to mounting the housing ladder are most persuaded that ownership is important. It is interesting to note that renters who plan to buy within one year--amounting to 10% of

[3] Joint Center 1993, Executive Summary Key Findings.

the renter population--responded very similarly to first-time buyers. Moreover, among renters who said owning is not important, 78% of them were aged 55 or older, many of them have been homeowners in the past, and 52% of them had annual incomes less than $15,000 (in 1991 dollars); hence, most of this group is unlikely to be in the market for a home in the future.

These perceptions are confirmed by Fannie Mae in their 1993 National Housing Survey. They find that 83% of respondents answered that owning a residence is a good investment. Only 14% believed that a home was just an average investment, and 2% responded that it was a poor investment. Similarly, 86% of respondents believe that a person is better off owning, while a mere 5% said that renting was better. They find that the main reasons people believe homeownership to be worthwhile is that, in addition to its financial advantages, the sense of security and having a place to raise one's family are the two most important reasons why owning improves one's standard of living.[4]

Expanding Homeownership Opportunities--Financing For Downpayments

Expanding homeownership opportunities is an extremely important goal not only of the NATIONAL ASSOCIATION OF REALTORS®, but also of the Clinton Administration and Housing Secretary Cisneros. If we are to help first-time, entry-level homebuyers to move up the housing ladder, we must help them surmount what has become the fundamental barrier hampering their climb: the inability to accumulate a downpayment.

Currently, nearly 60% of households in the U.S. -- and over 90% of renters -- are unable to afford the median-priced home in their area. Even modestly-priced starter homes are out of reach of 50% of all U.S. families and 85% of renters. The primary reason that these families are unable to buy homes is because they lack the necessary cash to make a downpayment and pay closing costs: among renters who cannot afford to buy either the median-priced home or the starter home, more than 35% of them cannot buy because they do not have the money for a downpayment.

In their 1993 National Housing Survey, Fannie Mae reports that 45% of U.S. households find that having enough money for a downpayment is "a major obstacle" to purchasing a home. More people cite the lack of a downpayment and money to cover closing costs as an obstacle to home owning than any other single obstacle. Even more striking is the finding that 66% of black households and 59% of hispanics responded that obtaining cash for the downpayment and closing costs is a major obstacle to their purchase of a home.

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[4] Fannie Mae, *National Housing Survey 1993*, pp. 15-17.

The difficulty of accumulating enough money for the up-front costs of home buying, however, have not deterred most renters from wanting to ascend the housing ladder and improve their families' standards of living. NAR finds that more than two-thirds of renters want to buy a home someday, but over 40% of them expect to have to save between two and five years in order to accumulate a downpayment. Another 13% of them believe it will take even longer for them to save. In addition, 31% of these renters believe they will be able to obtain downpayment assistance from federal homeownership programs. The experience of first-time owners, however, is that very few new home buyers receive downpayment help from the federal government--only 1% of first-time owners reported that they received assistance in paying their up-front costs.

Providing first time buyers with downpayment assistance is, therefore, one of the most substantive things the federal government can do to improve the living standards of millions of U.S. families. A recent report by the Census Bureau estimates that $5,000 in downpayment assistance would increase the number of families able to buy a median-priced home by nearly 8%, amounting to 2.7 million families, while $10,000 assistance grants would allow 6.4 million more households to purchase homes, increasing the number able to do so by nearly 19%. Even more strikingly, providing first-time buyers with $5,000 toward their downpayment on a starter home would allow 2.5 million more renters to become homeowners, increasing their numbers by 98%. A $10,000 grant program would improve the number of renters who could afford to buy their first home by more than 4.8 million households, a 187% increase in the number of people beginning their climb up the housing ladder. Clearly, doubling the size of the grants offered will more than double the increase in the number of families able to buy homes for the first time.

Such assistance is especially important at a time when house prices--and hence, minimum allowable downpayments as well as closing costs--are rising faster than the rate of income growth. Between 1988 and 1992, median home prices rose 16.1% in the U.S., while median household income increased only 13.1%, and median income of renter households grew only 10.6%. The divergence between income growth and the rise in up-front costs of home buying has made it increasingly difficult for families to save out of their current income. Renters, on average, must currently accumulate 25% of their current annual income in order to make a downpayment on a median-priced home, up from 23.8% in 1988 and continuing to rise. Even a starter home requires 21.2% of a renter's annual income, up from 20.3% in '88. As costs continue to rise, the need to bridge the gap between strapped-families' saving abilities and necessary cash becomes more and more important.

Removing barriers to saving in conjunction with downpayment assistance will go a long way toward assisting families in buying homes and improving their standards of living.

NATIONAL HOMEOWNERSHIP TRUST

Subsidizing Interest Rates

While our Association still supports the National Homeownership Trust Demonstration Program, we would once again like to express some concerns with the statute as it currently exists.

If the Program were in effect we would have to question its impact on the refinancing and selling behaviors of assisted homeowners. We believe the Trust subsidy would have insulated the homeowner from taking advantage of improved economic conditions in the real estate market, such as today's declining interest rates. For example, a loan originated in 1988 might carry an interest rate of nearly 10 percent. In the absence of a Federal subsidy, such a homeowner probably would have refinanced the loan today or sold the home in later years as market rates lessened. However, the homeowner assisted by the Trust would derive no immediate benefit from refinancing his or her subsidized mortgage. Indeed, the only consumer benefit accruing to the homeowner by refinancing would be the reduction of the overall repayment charge -- an amount to be determined and assessed at an unknown and distant date. One would have to question whether the repayment assessment, in and of itself, provides sufficient motivation. Although the chief beneficiary of such a refinancing would be the Trust Program, only the homeowner possesses the right to apply -- and pay -- to refinance the mortgage.

Consequently, we still believe that the Housing Trust proposal should provide a mechanism and an incentive for homeowners to refinance their Trust-subsidized loans during periods of improved economic conditions. Several options exist; however such a mechanism should not obligate the homeowner to any unexpected charges or responsibilities. One mechanism to minimize long-term risk would be to limit the Trust Program's subsidy throughout the duration of the loan term. For example, the subsidy might be limited to or phased out after the passage of a certain number of years. Concurrently, the Trust also could be authorized to evaluate changing market conditions and determine whether a homeowner needs continued assistance in light of improved market conditions.

Responsible Mortgagee

NAR still questions the need for the provision in the statute that states that the Trust subsidy may only be provided if, "the mortgage has been made to, and is held by, a mortgagee that is federally insured or that is otherwise approved by the Trust as responsible and able to service the mortgage properly."

As the Members of the Subcommittee are aware, a vast majority of the FHA loans, plus a significant percent of conventional loans are made by private mortgage banking companies, who are not "Federally-insured institutions." While the law would allow the Trust's board to expand the list of approved institutions, we do not understand why the law excludes mortgage banking firms, many of whom are approved FHA lenders.

Conclusion

Mr. Chairman and Members of the Housing Subcommittee, let me once again thank you for providing me this opportunity to testify today on behalf of the NATIONAL ASSOCIATION OF REALTORS®. I would like to commend you on your efforts on behalf of first-time homebuyers and all American families who need affordable and decent housing. Our Association is looking forward to working with you and your staff in the upcoming year as you continue your work on eliminating the barriers to affordable housing and insuring that larger numbers of families are provided the opportunity to buy a home. Additionally, the NATIONAL ASSOCIATION OF REALTORS® has testified before the VA, HUD and Independent Agencies Appropriations Subcommittee on the importance of the Homeownership Trust Program, and you can count on our continued support for the program.

THE WALL STREET JOURNAL. THURSDAY, NOVEMBER 18, 1993 C1

Kitchen-Sink Bonds May Offer Everything but Stability

By Laura Jereski
Staff Reporter of The Wall Street Journal

There they go again.

Wall Streeters have figured out a new way to turn explosive securities into tame-looking investments. Once again, banks are the targeted buyers. But regulators fear the bonds' future may prove stormier than buyers expect.

Banks and other financial institutions have bought more than $3.5 billion of them since April. The offerings are called secured investor trusts but known on the Street as "kitchen-sink bonds," because they are backed by everything but.

For securities firms and some of their clients, kitchen-sinkers are a godsend. The bonds are issued by trusts into which Wall Street dumps bits and pieces of capricious, hard-to-value mortgage-backed securities. If the market for a certain mercurial mortgage-backed bond should dry up, just pop it into a trust and get it off the investors' books.

Yet even the bonds' admirers aren't without qualms. Michael May, vice president of the Federal Home Mortgage Loan Corp., which issues mortgage-backed securities and has been considering issuing this type, concedes: "Some days I feel just fine; some days they make me nervous as hell."

Kitchen-sinkers are the offspring of mortgage-backed securities, which are backed by the interest and principal payments from pools of mortgage loans. Wall Street carves up the cash flows from those securities into quirkier bonds, known as collateralized mortgage obligations, or CMOs. There are more than $500 billion of CMOs on the market.

A More Palatable Mix

The problem is, a few CMOs are just too weird for investors to digest. These CMOs may languish in the inventories of Wall Street firms that underwrite CMOs or on the books of customers, posing risks. Kitchen-sinkers are the latest way Wall Street gussies up mercurial bonds and passes them on to other investors. The idea is to lump lots of the unpalatable CMOs into another diversified pool, then re-cut the underlying cash flow into pieces that appear more appetizing.

"To the extent that this creates demand for more esoteric [CMOs], the deals will improve the market overall," says Mr. May of Freddie Mac.

Because kitchen-sinkers carry triple-A ratings from credit-rating services, their risks aren't obvious. The top-notch rating, from Fitch Investors Service Inc. and Duff & Phelps Credit Rating Co., reflects how the deals were structured, not the underlying assets' safety.

The bonds will boast the triple-A rating as long as the underlying securities throw off enough cash to pay investors as promised, a structure known as a cash-flow bond. Never mind it's a slight promise: to repay investors their principal at the trusts' expiration in some 30 years. What lures investors is the two percentage points above floating short-term rates they will get if the bonds work out.

Marketability Questioned

And what if they don't? Federal regulators and even critics on Wall Street worry that the bonds are too complex to analyze and may be unsalable as a result. The trusts contain pieces of dozens of mortgage deals – some privately placed – from as many as a dozen underwriters.

"Our concern with this product is the purchaser's ability to test the volatility of the securities," says William A. Stark, assistant director of the office of capital markets at the Federal Deposit Insurance Corp., which insures bank deposits. The Office of Thrift Supervision has determined that the bonds are high-risk holdings, which means the thrifts holding them would have to mark them to market prices.

Earlier this fall, mortgage prepayments reached record levels as interest rates fell and homeowners rushed to refi-

nance at lower rates. That drove down the price of CMOs whose returns rely solely on interest – not principal – payments on the underlying mortgages; such bonds suffer when mortgage prepayments rise because it means the interest payments earmarked for them are cut off early.

Insurance companies feeling the heat of new regulations wanted to dump such interest-only bonds as IOs and PAC IOs, or planned amortization class, a structure intended to be more stable. When no one wanted them, the sellers couldn't get an acceptable price.

Spurred by Banks' Demand

Wall Street firms created the kitchen-sink trusts to seize on the profit opportunity created by matching up the poor-selling IOs with banks' ravenous appetite for floating-rate bonds. Bear, Stearns & Co. has issued nearly $2.5 billion since April, reaping at least $25 million in profit and savings.

Banks are especially enamored of floating-rate mortgage-backed bonds because they are exempt from stringent new rules intended to monitor the "interest-rate sensitivity" of banks' portfolios. The rules restrict bank investments in the most volatile mortgage-backed securities, but that has barely damped banks' appetites

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High-Risk Securities Find a New Home In Kitchen-Sinkers

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for bonds that can match their short-term liabilities. Holdings of CMOs by the 100 largest banks nearly tripled to $90 billion in the first half of 1993, according to Inside Mortgage Securities, a newsletter.

The Wall Street firms putting these deals together insist that the trusts provide a resale market for hard-to-analyze bonds that are prone to falling out of favor. "If there isn't a bid in the market," says one deal designer, "at least you can get the bonds off your books."

Increasingly, however, underwriters are using the trusts to absorb the risky remnants of new issues, which must be sold in order to sell the rest of the deal.

Case in point: the $263 million kitchen-sinker sold last month by Bear Stearns. The trust contains pieces of 28 mortgage-backed deals from nine underwriters and is replete with such esoterica as inverse two-tiered index bonds, which are capped bonds that float inversely to a popular interest-rate index.

About $85 million of the bonds came from Bear Stearns' inventory, including inverse two-tiered index bonds, IOs and inverse floaters, which pay less as rates rise. The rest were created by dealers at General Electric Co.'s Kidder, Peabody & Co. unit, Lehman Brothers, Merrill Lynch & Co., Salomon Brothers Inc., First Boston Corp., Goldman Sachs, and Donaldson, Lufkin & Jenrette Securities Corp.

Many of the bonds in the trust are less than six months old and may never have been sold out of the dealers' inventory before being absorbed in the trust. Yet there isn't any disclosure about where the bonds came from, or who underwrote them, in documents filed with the Securities and Exchange Commission. There isn't information about the price at which the bonds were contributed to the trust nor the valuation method Bear Stearns used.

Such disclosure would be required for a bond underwriting or a public sale of stock. But it is absent here because the securities in the trust – CMOs backed by mortgages with credit guarantees from Freddie Mac and the Federal National Mortgage Association – are deemed to be securities issued by government-sponsored entities exempt from disclosure requirements of the Securities Act of 1933.

A Bear Stearns official said it placed bonds in the trusts when their cash flows were needed to make the deal work or the trusts provided the best price.

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